



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 2, 2003

### **S. 1050** **National Defense Authorization Act for Fiscal Year 2004**

*As passed by the Senate on May 22, 2003*

#### **SUMMARY**

S. 1050 would authorize appropriations totaling about \$398 billion for fiscal year 2004 for the military functions of the Department of Defense (DoD) and the Department of Energy (DOE). It also would authorize an additional \$1 billion in 2004 and \$6.7 billion over the 2005-2010 period for the Department of Homeland Security to provide grants to state, local, and tribal governments to hire additional firefighters. In addition, the act 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 would result in additional outlays of about \$397 billion over the 2004-2008 period.

The act also contains provisions that would raise the costs of discretionary defense programs over the 2005-2008 period. CBO estimates that those provisions would require additional appropriations of just over \$8 billion over those four years. The bulk of those costs would stem from implementing section 701, which would offer expanded health care benefits to members of the selected reserve and certain members of the Individual Ready Reserve.

The act contains provisions that would increase direct spending by an estimated \$81 million over the 2004-2008 period and \$142 million over the 2004-2013 period, primarily from changing the method of funding for education benefits offered as an enlistment incentive to servicemembers who enlist in the military under the National Call to Service program. The act also would increase revenues by authorizing the Navy to collect additional gifts from private sources.

Section 4 of the Unfunded Mandates Reform Act (UMRA) excludes from the application of that act any legislative proposals that enforce the constitutional rights of individuals. CBO has determined that section 564, which pertains to the voting rights of members of the uniformed services, would fall within that exclusion. Therefore, CBO has not reviewed section 564 for mandates.

The other provisions of S. 1050 contain no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1050 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. 1050, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2004**

|  | By Fiscal Year, in Millions of Dollars |         |         |        |        |       |
|--|--|---------|---------|--------|--------|-------|
|  | 2003                                   | 2004    | 2005    | 2006   | 2007   | 2008  |
| <b>SPENDING SUBJECT TO APPROPRIATION</b>                         |  |         |         |        |        |       |
| Spending Under Current Law<br>for Programs Authorized by S. 1050 |  |         |         |        |        |       |
| Budget Authority <sup>a</sup>                                    | 452,977                                | 0       | 0       | 0      | 0      | 0     |
| Estimated Outlays  | 419,028                                | 150,281 | 45,594  | 13,941 | 5,593  | 2,702 |
| Proposed Changes   |  |         |         |        |        |       |
| Estimated Authorization Level                                    | 0                                      | 398,600 | 1,030   | 1,061  | 1,093  | 1,126 |
| Estimated Outlays  | 0                                      | 268,308 | 89,518  | 27,164 | 8,435  | 3,843 |
| Spending Under S. 1050<br>for Defense Programs                   |  |         |         |        |        |       |
| Estimated Authorization Level <sup>a</sup>                       | 452,977                                | 398,600 | 1,030   | 1,061  | 1,093  | 1,126 |
| Estimated Outlays  | 419,028                                | 418,589 | 135,112 | 41,105 | 14,028 | 6,545 |
| <b>CHANGES IN DIRECT SPENDING</b>                                |  |         |         |        |        |       |
| Estimated Budget Authority                                       | 0                                      | 59      | 2       | 3      | 7      | 10    |
| Estimated Outlays  | 0                                      | 28      | 13      | 13     | 15     | 12    |
| <b>CHANGES IN REVENUES</b>                                       |  |         |         |        |        |       |
| Acceptance of Gifts by the Navy                                  | 0                                      | 4       | 10      | 10     | 8      | 2     |

NOTE: For 2004-2008, the figures under "Proposed Changes" include amounts specifically authorized by the act plus an inferred authorization in 2004 for the Coast Guard Reserve based on authorized endstrength levels. The act also implicitly authorizes programs in 2005-2008; those authorizations are not included above (but are shown in Table 3) because funding for those programs would be covered by specific authorizations in future years.

a. The 2003 level is the amount already appropriated for programs authorized by the act (including \$62,808 million in appropriations in Public Law 108-11, the Emergency Wartime Supplemental Appropriations Act, 2003). This level is slightly lower than the comparable figure presented in CBO's cost estimate of H.R. 1588, the National Defense Authorization Act for Fiscal Year 2004, as order reported by the House Committee on Armed Services on May 14, 2003. H.R. 1588 would authorize appropriations for some existing programs that would not be authorized under S. 1050.

## **BASIS OF ESTIMATE**

### **Spending Subject to Appropriation**

The act would specifically authorize appropriations totaling \$398.5 billion in 2004 (see Table 2).<sup>1</sup> Most of those costs (\$397.4 billion) would fall within budget function 050 (national defense). Other costs—some occurring beyond 2004—would fall in other budget functions; they include: \$1.0 billion in 2004 and about \$1.1 billion annually over the 2005-2010 period for the Department of Homeland Security (function 450—community and regional development); and \$65 million in 2004 for the Armed Forces Retirement Home (function 600—income security). Authorizations for the Department of Homeland Security are discussed later in the estimate, just before the section on direct spending.

The estimate assumes that the amounts authorized for 2004 will be appropriated before the start of fiscal year 2004. Outlays are estimated based on historical spending patterns.

For 2003, the act authorizes the appropriation of the \$62.8 billion in supplemental funding for DoD and DOE as provided in Public Law 108-11, the Emergency Wartime Supplemental Appropriations Act, 2003. Because the wartime supplemental funding has been enacted into law, Table 1 includes those appropriations in the figures for “Spending Under Current Law.”

The act is silent regarding additional appropriations for 2004 that DoD indicates will be required to fund ongoing operations relating to Iraq and the global war on terrorism. CBO expects that those amounts, which would be additions to appropriations authorized by the act, will likely be provided in supplemental appropriations enacted during 2004.

The act also contains provisions that would affect various costs, mostly for military compensation and health benefits, that would be covered by the fiscal year 2004 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 act for 2004, these provisions would raise estimated costs by just over \$8 billion over the 2005-2008 period. These amounts do not include the costs of sections 561, 562, 621, 622, 1102, or 1208 because CBO cannot estimate the costs at this time. Those sections of the act pertain primarily to military pay and benefits. The provisions identified in Table 3 are described below, including information about CBO's estimates of costs for those provisions.

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1. After adding the \$120 million estimated authorization for the Coast Guard Reserve, the act would authorize appropriations totaling \$398.6 billion for 2004.

**TABLE 2. SPECIFIC AUTHORIZATIONS IN S. 1050**

| Category   | By Fiscal Year, in Millions of Dollars |        |        |       |       |
|--|--|--------|--------|-------|-------|
|  | 2004                                   | 2005   | 2006   | 2007  | 2008  |
| <b>Military Personnel</b>                          |  |        |        |       |       |
| Authorization Level <sup>a</sup>                   | 98,892                                 | 0      | 0      | 0     | 0     |
| Estimated Outlays                                  | 94,217                                 | 3,956  | 198    | 99    | 0     |
| <b>Operation and Maintenance</b>                   |  |        |        |       |       |
| Authorization Level                                | 131,008                                | 0      | 0      | 0     | 0     |
| Estimated Outlays                                  | 100,125                                | 25,039 | 3,787  | 1,066 | 332   |
| <b>Procurement</b>                                 |  |        |        |       |       |
| Authorization Level                                | 75,308                                 | 0      | 0      | 0     | 0     |
| Estimated Outlays                                  | 22,646                                 | 28,385 | 14,907 | 4,813 | 1,858 |
| <b>Research, Development, Test, and Evaluation</b> |  |        |        |       |       |
| Authorization Level                                | 63,146                                 | 0      | 0      | 0     | 0     |
| Estimated Outlays                                  | 33,960                                 | 23,106 | 4,767  | 759   | 196   |
| <b>Military Construction and Family Housing</b>    |  |        |        |       |       |
| Authorization Level                                | 9,638                                  | 0      | 0      | 0     | 0     |
| Estimated Outlays                                  | 2,571                                  | 3,490  | 1,981  | 806   | 399   |
| <b>Atomic Energy Defense Activities</b>            |  |        |        |       |       |
| Authorization Level                                | 16,699                                 | 0      | 0      | 0     | 0     |
| Estimated Outlays                                  | 11,482                                 | 4,346  | 868    | 2     | 0     |
| <b>Department of Homeland Security</b>             |  |        |        |       |       |
| Authorization Level                                | 1,000                                  | 1,030  | 1,061  | 1,093 | 1,126 |
| Estimated Outlays                                  | 420                                    | 703    | 904    | 1,021 | 1,092 |
| <b>Other Accounts</b>                              |  |        |        |       |       |
| Authorization Level                                | 2,789                                  | 0      | 0      | 0     | 0     |
| Estimated Outlays                                  | 1,861                                  | 679    | 145    | 67    | 32    |
| <b>General Transfer Authority</b>                  |  |        |        |       |       |
| Authorization Level                                | 0                                      | 0      | 0      | 0     | 0     |
| Estimated Outlays                                  | 918                                    | -198   | -393   | -198  | -66   |
| <b>Total</b>                                       |  |        |        |       |       |
| Authorization Level <sup>b</sup>                   | 398,480                                | 1,030  | 1,061  | 1,093 | 1,126 |
| Estimated Outlays                                  | 268,200                                | 89,506 | 27,164 | 8,435 | 3,843 |

a. This authorization is for discretionary appropriations and does not include an estimated \$302 million for mandatory payments from appropriations for military personnel.

b. These amounts comprise nearly all of the proposed changes for authorizations of appropriations for 2004 shown in Table 1; they do not include the estimated authorization of \$120 million for the Coast Guard Reserve, which is shown in Table 3. For 2005-2008 they include authorizations for the Department of Homeland Security discussed later in the estimate.

**TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN S. 1050<sup>a</sup>**

| Category  | By Fiscal Year, in Millions of Dollars |       |       |       |       |
|---|--|-------|-------|-------|-------|
|   | 2004                                   | 2005  | 2006  | 2007  | 2008  |
| <b>MULTIYEAR PROCUREMENT</b>                                    |  |       |       |       |       |
| E-2C and TE-2C Aircraft and Engines                             | -62                                    | 2     | 0     | 2     | 0     |
| F/A-18E/F Aircraft  | 0                                      | -166  | -205  | -211  | -236  |
| Tactical Tomahawk Missiles                                      | 3                                      | -40   | -43   | -32   | -23   |
| Virginia Class Submarines                                       | 275                                    | 210   | -64   | -613  | -613  |
| Phalanx Close-In Weapon System                                  | 20                                     | -11   | -12   | -20   | -34   |
| <b>FORCE STRUCTURE</b>  |  |       |       |       |       |
| DoD Military Endstrengths                                       | -28                                    | -58   | -59   | -61   | -63   |
| Coast Guard Reserve Endstrength                                 | 120                                    | 0     | 0     | 0     | 0     |
| Restriction on Retiring Tanker Aircraft                         | 55                                     | 0     | 0     | 0     | 0     |
| <b>COMPENSATION AND BENEFITS</b>                                |  |       |       |       |       |
| Military Pay Raises   | 228                                    | 323   | 334   | 345   | 357   |
| Coast Guard Pay Raise   | 6                                      | 9     | 9     | 10    | 10    |
| Expiring Bonuses and Allowances                                 | 624                                    | 550   | 327   | 217   | 151   |
| Increase Family Separation Allowance                            | 199                                    | 104   | 84    | 84    | 49    |
| Increase Imminent Danger Pay                                    | 132                                    | 79    | 67    | 67    | 35    |
| Incentive Pay for Service in Korea                              | 49                                     | 49    | 15    | 0     | 0     |
| Morale Communications Program                                   | 56                                     | 0     | 0     | 0     | 0     |
| Increase Death Gratuity   | 9                                      | 8     | 8     | 8     | 8     |
| Undermanned Occupation Pay                                      | 8                                      | 9     | 10    | 2     | 0     |
| BAH for Married Servicemembers on Sea Duty                      | 7                                      | 8     | 8     | 9     | 10    |
| National Call to Service Program                                | 0                                      | *     | -1    | -4    | -7    |
| Other Provisions  | 3                                      | 3     | 3     | 3     | 3     |
| <b>DEFENSE HEALTH PROGRAM</b>                                   |  |       |       |       |       |
| TRICARE Coverage for Reservists                                 | 466                                    | 1,041 | 1,695 | 1,964 | 2,106 |
| Uniformed Services Medicare-Eligible Retiree<br>Healthcare Fund | 0                                      | 14    | 0     | 0     | 0     |
| <b>OTHER PROVISIONS</b>   |  |       |       |       |       |
| Matters Relating to Other Nations                               | 60                                     | 60    | 60    | 20    | 20    |
| Arctic and Western Pacific Environmental<br>Cooperation Program | 2                                      | 2     | 2     | 2     | 2     |
| Experimental Program for Scientific and<br>Technical Personnel  | 1                                      | 1     | 6     | 6     | 6     |
| Travel for Victims of Domestic Abuse                            | 1                                      | 1     | 1     | 1     | 1     |
| <b>TOTAL ESTIMATED AUTHORIZATIONS</b>                           |  |       |       |       |       |
| Estimated Authorization Level <sup>a</sup>                      | 2,234                                  | 2,198 | 2,245 | 1,799 | 1,782 |

NOTES: For every item in this table except the authorization for the Coast Guard Reserve, the 2004 levels are included in Table 2 as amounts specifically authorized to be appropriated in the act. Amounts shown in this table for 2005 through 2008 are not included in Table 1.

BAH = Basic Allowance for Housing.

\* = less than \$500,000.

a. These amounts do not include the costs of sections 561, 562, 621, 622, 1102, or 1208 because CBO cannot estimate such costs at this time.

**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 121 would authorize the Secretary of the Navy to enter into multiyear procurement contracts for E-2C aircraft, F/A-18 aircraft, the Tactical Tomahawk Cruise Missile, the Virginia Class submarine, and the Phalanx Close-In Weapon System, beginning in 2004.

Based on information provided by the Navy, CBO assumes the service would initiate a four-year multiyear contract to purchase four E-2C aircraft, four TE-2C aircraft, and 16 engines for these aircraft, starting in 2004. CBO estimates that savings from buying these aircraft and engines under such a contract would total almost \$60 million, or about \$15 million a year, over the 2004-2007 period. Funding requirements to purchase these aircraft and engines would total just over \$950 million over the 2004-2007 period (instead of the roughly \$1 billion that would be needed under annual contracts).

The Navy is currently executing a five-year multiyear contract for F/A-18 aircraft, which extends through 2004. Based on information provided by the Navy, CBO assumes that the Navy would initiate a follow-on contract for F/A-18 E/F and EA-18G aircraft beginning in 2005, procuring 168 aircraft over the 2005-2008 period. CBO estimates that savings from buying these aircraft under this multiyear contract would total \$818 million, or about \$204 million a year, over the 2005-2008 period. Funding requirements to purchase these aircraft would total just under \$12.9 billion over the 2005-2008 period (instead of the \$13.7 billion that would be needed under annual contracts). CBO also estimates that additional savings of \$235 million would accrue in 2009 if the Navy completes its planned purchase of 42 more aircraft under this multiyear procurement authority.

CBO assumes the Secretary of the Navy would enter into a multiyear contract to purchase tactical Tomahawk cruise missiles starting in fiscal year 2004, provided that the Secretary determines, on the basis of operational testing, that the missile is effective for fleet use. Based on information provided by the Navy, CBO assumes that the Navy would buy 1,784 missiles over the 2004-2008 period. CBO estimates that savings from buying these missiles under a multiyear contract would total about \$135 million over the 2004-2008 period, or about \$75,000 a missile. Funding requirements to purchase these missiles would total just over \$1.6 billion over the 2004-2008 period (instead of the almost \$1.8 billion that

would be needed under the annual contracts). Multiyear procurement of tactical Tomahawk missiles would raise costs in 2004 because the Navy would need to provide for advance purchases of components for missiles that it would purchase later in the 2004-2008 period.

CBO assumes the Secretary of the Navy would enter into a multiyear contract to buy Virginia class submarines starting in fiscal year 2004. Under the terms specified in section 121(c), the Navy may award the multiyear contract to one of two eligible shipbuilders—Electric Boat Corporation or Newport News Shipbuilding and Drydock Company—on the condition that the winning shipbuilder enter into one or more subcontracts with the other shipbuilder under teaming arrangements similar to those worked out between the two companies in 1997. (Details of this arrangement were submitted to the Congress by the Secretary of the Navy on March 31, 1997.) Based on information provided by the Navy, CBO assumes that the Navy would buy seven Virginia class submarines over the 2004-2008 period. CBO estimates that savings from buying these submarines under a multiyear contract would total \$805 million, or about \$115 million a submarine, over the 2004-2008 period. CBO estimates that funding requirements to purchase these submarines, as well as funding the advance purchase of components for future boats, would total about \$15.4 billion over the period (instead of the \$16.2 billion that would be needed under annual contracts). Multiyear procurement of Virginia class submarines would raise costs in 2004 and 2005 because the Navy would need to provide increased funding in each of those years for the advance purchases of components for the submarines that it would purchase later in the 2004-2008 period.

Finally, CBO assumes that the Navy would enter into a multiyear contract to upgrade existing Phalanx Close-In Weapon Systems starting in fiscal year 2005. These systems are deployed on most surface class combatants and carriers to defend against antiship missiles that have penetrated all other ship's defenses. The upgrades would allow the system to engage and destroy small, high-speed surface craft and low-flying, slow aircraft and helicopters. For this estimate, CBO assumes that the Navy would upgrade 190 systems over the 2004-2008 period. CBO estimates that savings from purchasing these upgraded systems under a multiyear contract would total about \$60 million, or about \$300,000 per system, over the 2004-2008 period. CBO estimates that funding requirements to upgrade these systems and install them on the ships would total about \$810 million over the period (instead of the \$870 million that would be needed under annual contracts). Multiyear procurement of Phalanx Close-In Weapon Systems would raise costs in 2004 because the Navy would need to provide increased funding in that year for the advance purchases of components for the systems that it would purchase later in the period. CBO also estimates that additional savings of \$15 million would accrue in 2009 if the Navy completes its planned purchase of 43 more Phalanx systems under this multiyear procurement authority.

**Military Endstrength.** The act would authorize active and reserve endstrength levels for 2004 and would increase the minimum endstrength authorization in permanent law. The authorized endstrengths for active-duty personnel and personnel in the selected reserve would total about 1,390,000 and 863,000, respectively. Of those selected reservists, about 70,000 would serve on active duty in support of the reserves. The act would specifically authorize appropriations of \$99.2 billion for military pay and allowances and other costs in 2004, where about \$0.3 billion of that amount would be for mandatory payments to severely disabled retirees that must be made under current law. The authorized endstrength represents a net decrease of 2,858 servicemembers that would result in savings for salaries and other expenses of \$28 million in the first year and about \$60 million annually in subsequent years, compared to the authorized strengths for 2003.

The act also would authorize an endstrength of 10,000 in 2004 for the Coast Guard Reserve. This authorization would cost about \$120 million and would fall under budget function 400 (transportation).

**Restriction on Retiring Tanker Aircraft.** Section 367 would direct the Air Force to retire no more than 12 KC-135E tanker aircraft in 2004. According to information provided by DoD, the Air Force currently plans to retire 44 of these planes in that year, and projects savings of \$75 million in 2004 from doing so. CBO estimates that the cost to keep 32 of these KC-135E aircraft operating in the reserves for 2004 would total \$55 million.

**Compensation and Benefits.** S. 1050 contains several provisions that would affect military compensation and benefits for uniformed personnel.

*Military Pay Raises.* Section 601 would raise basic pay for individuals in the Army, Navy, Marine Corps, and Air Force by 3.7 percent across-the-board, and would authorize additional targeted pay raises, ranging from 0.9 percent to 2.25 percent, for individuals with specific ranks and years of service at a total cost of about \$2.1 billion in 2004. 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 \$228 million in 2004 and total \$1.6 billion over the 2004-2008 period.

This section would also raise basic pay for members of the Coast Guard by the same across-the-board and targeted pay rates for a total cost of \$61 million in 2004. Because these pay raises also would be above those projected under current law, CBO estimates that the incremental costs associated with the larger pay raises would be \$6 million in 2004 and about \$45 million over the 2004-2008 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 2003, or three months into fiscal year 2004. The act would extend these authorities through December 2004. 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 \$305 million in 2004 and \$171 million in 2005; enlistment bonuses for active-duty personnel would cost \$113 million in 2004 and \$163 million in 2005;
- Various bonuses for the selected and ready reserve would cost \$78 million in 2004 and \$89 million in 2005;
- Special payments for aviators and nuclear-qualified personnel would cost \$73 million in 2004 and \$78 million in 2005;
- Retention bonuses for officers and enlisted members with critical skills would cost \$14 million in 2004 and \$9 million in 2005; and
- Authorities to make special payments and give bonuses to certain health care professionals would cost \$41 million in 2004 and \$40 million in 2005.

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

*Increase Family Separation Allowance.* Section 606 would increase the family separation allowance from \$100 per month to \$250 per month effective October 1, 2003. (Public Law 108-11 raised this allowance for fiscal year 2003, but that authority expires at the end of the fiscal year.) Based on information from DoD about the number of servicemembers currently receiving this allowance and CBO assumptions about future troop levels that would be assigned overseas, CBO estimates that implementing section 606 would cost \$199 million in 2004 and \$520 million over the 2004-2008 period.

*Increase Imminent Danger Pay.* Section 619 would increase imminent danger pay from \$150 per month to \$225 per month effective October 1, 2003. (Public Law 108-11 raised this payment for fiscal year 2003, but that authority expires at the end of the fiscal year.) Based on information from DoD about current troop levels in areas designated as qualifying for imminent danger pay and CBO assumptions about future troop levels, CBO estimates that implementing this section would cost \$132 million in 2004 and \$380 million over the 2004-2008 period.

*Incentive Pay for Service in Korea.* Section 616 would direct the Secretary of Defense to pay an incentive payment of \$100 a month to members of the military who perform service in Korea. The authority to provide this payment would expire on December 31, 2005. According to DoD, about 38,500 servicemembers are assigned to this area on average and between 12,000 and 15,000 additional servicemembers serve there each year in a temporary duty status. CBO estimates that the cost of providing this benefit to members of the military performing service in Korea would be \$49 million in 2004 and \$113 million over the 2004-2006 period.

*Morale Communications Program.* Section 311 would require DoD to provide servicemembers who are directly supporting military operations in Iraq or Afghanistan with prepaid phone cards, or an equivalent telecommunications benefit, to enable them to call family and friends. Under this provision, the value of the benefit given to each qualifying servicemember would not exceed \$40 a month. The authority for the program would terminate on September 30, 2004. Because DoD has not been able to provide information about how this program would be implemented, CBO assumes that all qualifying personnel would receive a prepaid phone card valued at \$40 for each month they serve directly supporting operations in Iraq or Afghanistan. Based on information from DoD about current troop levels in areas designated as qualifying for this benefit and CBO assumptions about future troop levels in those locations, CBO estimates that implementing this section would cost \$56 million in 2004.

*Increase Death Gratuity.* Section 643 would increase the death gratuity from \$6,000 to \$12,000 and would apply retroactively to deaths occurring on or after September 11, 2001. Based on data from DoD, CBO estimates that, beginning in 2004, about 1,400 families of deceased servicemembers would receive the increased death gratuity each year and that implementing this section would cost about \$8 million a year. (CBO estimates that there also would be direct spending of \$22 million in 2004 for payments to survivors of servicemembers who died between September 11, 2001, and September 30, 2003. CBO's estimate of those costs is discussed below under the heading of "Direct Spending.")

*Undermanned Occupation Bonus.* Section 623 would give DoD the authority to offer an incentive bonus of up to \$4,000 to encourage certain enlisted members to convert from their current occupational specialty to an occupational specialty where there is a critical shortage of personnel. The new authority would expire on December 31, 2006. According to DoD, the Navy is the only service with the immediate intention to offer this bonus. The Navy plans to scale the amount of the bonus to the degree that an occupational specialty is critically short of personnel. In other words, the Navy would offer a smaller bonus to servicemembers who convert to occupational specialties where there is less of a critical shortage in personnel. Given the number of occupation conversions experienced in previous

years, the Navy estimates that about 2,500 enlisted servicemembers would receive this bonus in 2004, growing to 3,300 recipients by 2007. Assuming the average bonus would be \$3,000, CBO estimates that implementing this section would cost \$8 million in 2004 and \$29 million over the 2004-2008 period.

*Basic Allowance for Housing for Married Servicemembers on Sea Duty.* Under current law, enlisted servicemembers who are married to another enlisted servicemember and do not have any dependents must give up one person's basic allowance for housing (BAH) benefit when both spouses are on sea duty. Section 605 would allow each servicemember to continue to receive BAH. Based on data from DoD, CBO assumes that this provision would affect about 770 enlisted servicemembers each year. The average annual BAH benefit, which varies by locality and is adjusted each year to reflect changes in housing costs within each locality, is projected by DoD to be about \$9,400 in 2004. Based on historical growth rates in BAH, CBO estimates that the average annual BAH benefit would grow to about \$12,400 in 2008. Thus, CBO estimates that the cost of implementing this section would be \$7 million in 2004 and \$42 million over the 2004-2008 period.

*National Call to Service Program.* Section 535 would change the method of funding for education benefits offered as an enlistment incentive to participants in the National Call to Service program. National Call to Service, established in the Bob Stump National Defense Authorization Act for Fiscal Year 2003, is an accession program in which a participant, in exchange for a specified incentive, enlists in the armed forces for a period of 15 months plus training time and then continues on active duty or serves in the reserves, the Peace Corps, Americorps, or another national service program for a period of time specified in the enlistment agreement. The incentive payments under this program are currently subject to the availability of appropriated funds.

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

Based on information from DoD, CBO assumes that, beginning in 2004, DoD will recruit about 1 percent of its enlisted accessions (an average of about 2,000 enlistees a year) under the National Call to Service program, and that about half of these enlistees will choose education benefits as their enlistment incentive. Program participants who choose an

education benefit as their enlistment bonus will be offered the choice of a monthly benefit equal to the full MGIB benefit (\$985 in 2004, increasing annually by a cost-of-living adjustment) for 12 months, or equal to half the MGIB benefit for 36 months. Lacking data on participant choices, CBO assumes that 500 enlistees will choose each of the two options.

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

The Education Benefits Fund is currently used to fund education benefits for reservists. When a reservist enlists for at least six years, DoD deposits the net present value of the MGIB-Select Reserve benefit into the fund. Section 535 would use this same mechanism to fund National Call to Service education benefits. Based on the benefit amounts and usage rates described above, CBO estimates the average net present value of the two education options would be about \$7,500 per person in 2004, increasing to \$9,400 per person by 2013. Deposits for 1,000 enlistees a year would require payments from the military personnel accounts to the fund of about \$85 million over the 2004-2013 period. As these payments are intergovernmental transfers, and have no net budgetary effect, they are not treated as additional costs.

*Other Provisions.* Section 604 would allow students in their second year of a four-year Senior Reserve Officer Training Course to receive a monthly stipend. Under current law, these cadets would not be eligible to receive a stipend until their third year in the program. Based on information from DoD, CBO estimates that DoD would offer a stipend of about \$390 a month during the academic year to about 530 students in 2004. By 2008, we estimate that about 600 students would receive a stipend of about \$425 a month. CBO estimates that implementing this provision would cost about \$2 million a year.

Section 615 would allow DoD to pay officers in the reserves who are assigned to positions of unusual responsibility or positions that are critical in nature a special payment each month as long as they hold those positions. Based on information from DoD, CBO estimates that implementing this provision would cost less than \$1 million a year.

Section 561 would change the payment amount that servicemembers who are deployed away from their home base receive if they are gone more than 400 days out of a two-year period and would add two additional categories of eligibility for this payment—deployment over

190 consecutive days and call up to active duty for the second time for the same contingency operation. Section 562 would establish a program to allow people with critical military skills to enter the Armed Forces with an initial service obligation of not less than three years, as opposed to the six to eight year commitment required under current law. Under section 562, this authority would expire on September 30, 2005. Section 621 would expand an incentive program that encourages enlisted servicemembers to extend the length of their overseas assignments. The expansion would add officers to the program's scope. Section 622 would allow DoD to offer a bonus of up to \$60,000 to newly appointed officers with critical skills. CBO cannot estimate the budgetary impact of these provisions, however, since DoD is unable to provide information about how the department would implement these provisions.

**Defense Health Program.** Title VII contains a number of provisions that would affect DoD health care and benefits. TRICARE is the name of DoD's general health care program. TRICARE For Life (TFL) is a program that provides health care benefits to all retirees of the uniformed services, their dependents, and survivors who are eligible for Medicare and enroll in Medicare Part B. TFL provides a generous prescription drug benefit and covers all out-of-pocket costs for those benefits that are provided by both Medicare and TRICARE.

*TRICARE Coverage for Reservists.* Section 701 would require DoD to provide expanded health care benefits to members of the selected reserve and certain members of the Individual Ready Reserve in two ways. First, qualified reservists would be able to participate in DoD's TRICARE program with either self-only coverage or self-and-family coverage, even if the reservist has not been called to active duty. Second, those reservists who chose not to enroll in TRICARE would have a portion of their private health insurance premiums paid by DoD when they are called to active duty. In total, CBO estimates that implementing section 701 would cost \$466 million in 2004 and almost \$7.3 billion over the 2004-2008 period, assuming appropriation of the estimated amounts.

Under current law, reservists and their families can only participate in TRICARE while the reservist is called to active duty. Under section 701, reservists who are in an inactive status (i.e., not on active duty) would be allowed to enroll in and use TRICARE after paying a premium specified in the act. For enlisted personnel, the specified premium for self-only coverage would be \$330 a year and the premium for self-and-family coverage would be \$560 a year. Officers would pay an additional \$50 for each type of coverage.

Based on data from DoD, CBO estimates that this provision would apply to about 760,000 reservists after excluding about 120,000 reservists who work for the federal government. Because the out-of-pocket cost of TRICARE coverage would be relatively inexpensive compared to other health insurance programs, CBO estimates that about

70 percent of qualified reservists would opt to enroll in the TRICARE program and about 50 percent of those who opt for TRICARE insurance would chose self-and-family coverage. CBO estimates that in 2004 the average cost to DoD for those reservists who purchase self-only coverage would be about \$1,700 and self-and-family coverage would be about \$5,600. After assuming a three-year adjustment period for most reservists to enroll in the program, CBO estimates that implementing this provision would cost \$393 million in 2004 and \$7.1 billion over the 2004-2008 period, assuming appropriation of the estimated amounts.

Section 701 also would require DoD to pay a portion of private health insurance premiums for reservists called to active duty, if they have not enrolled in the TRICARE program. This requirement would only apply to reservists who have dependents, about 50 percent of these reservists. Reservists without dependents would have no need for this program because reservists themselves are required to use the TRICARE program when they are on active duty. Under this provision, DoD would pay an amount equal to TRICARE's average cost of health care for the reservist and each dependent covered by the private insurance up to the total cost of the reservist's premium. CBO estimates that the average cost DoD would pay towards private premiums would be the same as the average cost of providing TRICARE for self-and-family coverage, or \$5,600 in 2004. Using data from the Kaiser Family Foundation, CBO estimates that the average amount DoD would pay under the act would be about 60 percent of the average civilian premium.

CBO estimates that the costs of paying these premiums would be higher in the near term than over the long term because of the high number of reservists estimated to be on active duty in the near term and the fact that CBO assumes that many reservists would eventually enroll in TRICARE—making them no longer eligible for this program. CBO estimates that in 2004 the number of reservists called to active duty would average about 88,000, with that number dropping to about 15,000 by 2008. Thus, CBO estimates that implementing this provision would cost \$73 million in 2004 and \$155 million over the 2004-2008 period, assuming appropriation of the estimated amounts. If the number of reservists called to active duty over this period differs from this estimate, the cost would change accordingly.

*Medical and Dental Screening.* Section 701 also would allow DoD to provide medical and dental screening to members of the selected reserve who are assigned to units that have been alerted for mobilization. Under current law, DoD cannot provide this screening until the reservist has been mobilized. CBO does not expect that speeding up these evaluations would increase the overall amount of medical and dental screening DoD provides to reservists. Because this provision would allow DoD to provide some medical and dental screening earlier than it otherwise would, CBO estimates that implementing the authority would likely affect the timing of outlays but that the net effect would be insignificant.

*Uniformed Services Medicare-Eligible Retiree Healthcare Fund.* Under current law, this fund provides the amounts necessary to pay for the TFL benefit. The fund is financed through monthly payments from DoD, annual amortization payments by the Treasury, and interest earned on the fund's current balances. The amount that DoD must pay into the fund is determined by the Secretary of Defense, who must use methods and assumptions approved by an independent board of actuaries to calculate the payment amount or rate. The payment rate is calculated using a number of factors including the probability that servicemembers currently on active duty will retire from military service. Under current law, the Secretary of Defense is not allowed to establish separate payment rates for each of the uniformed services, even though the overall probability of retiring from the Public Health Service (PHS) and the National Oceanic and Atmospheric Administration (NOAA) is higher than the probability of retiring from the Army, Navy, Air Force, or Coast Guard.

Section 704 would allow DoD to calculate separate payment rates for the different services if the Secretary determines that doing so improves the quality of the actuarial estimate. CBO estimates that implementing this provision would have no effect on payments to the fund in 2004 but would likely increase the payments PHS and NOAA make to the fund in 2005.

CBO estimates that implementing this provision would have no effect on payments into the fund in 2004 because the payment amounts have already been established and it appears unlikely that the independent board of actuaries would approve any change in assumptions and methods necessary to revise the amounts for that year for the proposed change in law. Although the payment amounts for 2005 may be determined before the enactment of this act—the board approved the assumptions and methods on May 2, 2003, and the Secretary is expected to determine the rates shortly—CBO believes that the board would likely meet to approve the assumptions and methods necessary for the Secretary of Defense to set new payment rates if they were authorized. CBO expects that separate payment rates for NOAA and PHS would be higher than the rate currently set for fiscal year 2005 because the recommended rate does not presently incorporate information about the higher retirement probabilities for NOAA and PHS.

Using information from the respective organizations, CBO estimates that there are about 6,000 uniformed officers in the PHS and NOAA, with most in PHS. Based on data from DoD's Office of the Actuary, CBO estimates that implementing separate payment rates for PHS and NOAA would increase the payments these organizations must make to the fund in 2005 by almost \$2,400 an officer or about \$14 million, assuming appropriation of the estimated amounts. CBO estimates there would be no change in the level of payments made by DoD or the Coast Guard because the current method for calculating the payment relies solely on DoD data.

CBO does not estimate an impact from having separate payment rates over the 2006-2008 period. The Secretary currently uses only DoD retirement experience to calculate the probability of retiring from the uniformed services, primarily because the fund initially only covered DoD beneficiaries. As data for the other uniformed services becomes available, CBO expects that, absent this provision, DoD would consider that new data when determining the single rate it would charge all of uniformed services for 2006 and subsequent years. Incorporating that data would likely raise the single rate charged to all services somewhat. CBO expects that using separate rates for each service as provided for in the act would increase costs to PHS and NOAA each year, but would lower costs to DoD and the Coast Guard by approximately the same amount. Thus, total payments into the trust fund would not likely change much over the 2006-2008 period.

**Matters Relating to Other Nations.** Section 1201 would authorize DoD to use appropriated funds, up to \$20 million in any fiscal year, to pay the cost of foreign officials attending training programs conducted under the Regional Defense Counterterrorism Fellowship Program. DoD indicates that attendance in the program has increased significantly over the last year. Based on that information, CBO estimates that the department would likely use all available funds.

Section 1207 would expand and extend the authority to support counter-drug activities through 2006. It also would double the ceiling on funding for counter-drug assistance to \$40 million a year over the 2004-2006 period and make seven new countries—Afghanistan, Pakistan, Tajikistan, Turkmenistan, Uzbekistan, Bolivia, and Ecuador—eligible for support. Based on information from DoD, CBO estimates that the department would likely use all available funds.

Section 1208 would authorize the Secretary to support a unified campaign against narcotics trafficking and terrorist organizations in Colombia. CBO cannot estimate the cost of implementing this provision because DoD does not account separately for counter-drug assistance that is also used to combat terrorism.

**Arctic and Western Pacific Environmental Cooperation Program.** Section 323 would authorize the Department of Defense, with the concurrence of the Secretary of State, to assist Russia and other Pacific countries in mitigating the effects of previous and ongoing military operations on the environment of the arctic and western Pacific regions, particularly the effects of nuclear or radiological activities. Based on information from DoD, CBO estimates that implementing this provision would cost about \$2 million in 2004 and \$10 million over the 2004-2008 period.

**Experimental Program for Scientific and Technical Personnel.** Section 1103 would expand and extend an experimental program to recruit scientific and technical experts to work at the Defense Advanced Research Projects Agency (DARPA). DoD can, under current law, appoint a limited number of scientists and engineers from outside the civil service system to work at DARPA. The authority to administer the program expires on October 16, 2005. According to DoD, DARPA employs 40 scientists and engineers a year under this program at an average salary of about \$125,000 a year. Section 1103 would increase the number of appointments from 40 to 50 and extend the program through September 30, 2008. Based on information from DoD about how it would use the expanded authority, CBO estimates that the cost of implementing this section would be \$1 million a year in 2004 and 2005 and about \$6 million a year over the 2006-2008 period.

**Assistance for Victims of Domestic Violence.** Section 565 would require DoD to pay to move a spouse and any dependent children who have been abused by a servicemember if the victim's safety is at risk. Costs would include travel costs for the family and transportation of household goods and a vehicle. Based on information about the amount of transitional compensation paid in fiscal year 2000 to spouses of members forced to separate from the military for domestic violence and the average benefit amount for that year, CBO estimates that about 400 spouses receive assistance each year for being victims of domestic violence. Using the average cost to move a servicemember with dependents (about \$2,000 in 2004), CBO estimates that implementing this section would cost about \$1 million a year.

**Critical Civilian Personnel Positions.** Section 1102 would give DoD the authority to establish a program to appoint and pay civilian personnel with critical skills. The department would be allowed to appoint no more than 40 people under this program, and the length of the appointments would be limited to four years. In addition, the salaries for these appointees could not exceed the Vice President's salary, which is currently \$186,300. The authority to make these appointments would expire 10 years after the enactment of this act. CBO cannot estimate the budgetary impact of implementing this provision, however, because DoD is unable to provide information about how the department would implement this program.

**Department of Homeland Security.** Section 852 would authorize the Department of Homeland Security to provide grants to state, local, and tribal governments to hire additional firefighters. The act would authorize the appropriation of \$1 billion in fiscal year 2004 and another \$6.7 billion over the 2005-2010 period for these grants.

## Direct Spending

The act contains provisions that would increase direct spending, primarily from changing the method of funding for education benefits offered as an enlistment incentive to servicemembers who enlist in the military under the National Call to Service program. CBO estimates that enacting S. 1050 would result in an increase in direct spending totaling \$81 million over the 2004-2008 period and \$142 million over the 2004-2013 period (see Table 4).

**TABLE 4. ESTIMATED DIRECT SPENDING AND REVENUE EFFECTS FOR S. 1050**

|                                     | By Fiscal Year, in Millions of Dollars |      |      |      |      |      |      |      |      |      |
|-------------------------------------|--|------|------|------|------|------|------|------|------|------|
|                                     | 2004                                   | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| <b>CHANGES IN DIRECT SPENDING</b>   |  |      |      |      |      |      |      |      |      |      |
| Increase Death Gratuity             |  |      |      |      |      |      |      |      |      |      |
| Estimated Budget Authority          | 23                                     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| Estimated Outlays                   | 22                                     | 1    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| Marine Corps Heritage Center        |  |      |      |      |      |      |      |      |      |      |
| Estimated Budget Authority          | 34                                     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| Estimated Outlays                   | 4                                      | 10   | 10   | 8    | 2    | 0    | 0    | 0    | 0    | 0    |
| National Call to Service Program    |  |      |      |      |      |      |      |      |      |      |
| Estimated Budget Authority          | 0                                      | *    | 1    | 4    | 7    | 8    | 9    | 9    | 10   | 10   |
| Estimated Outlays                   | 0                                      | *    | 1    | 4    | 7    | 8    | 9    | 9    | 10   | 10   |
| In-Kind Consideration for Easements |  |      |      |      |      |      |      |      |      |      |
| Estimated Budget Authority          | 2                                      | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    |
| Estimated Outlays                   | 2                                      | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    |
| Waiver of Time-in-Grade Requirement |  |      |      |      |      |      |      |      |      |      |
| Estimated Budget Authority          | *                                      | *    | *    | 1    | 1    | 1    | 1    | 1    | 1    | 1    |
| Estimated Outlays                   | *                                      | *    | *    | 1    | 1    | 1    | 1    | 1    | 1    | 1    |
| Total Changes                       |  |      |      |      |      |      |      |      |      |      |
| Estimated Budget Authority          | 59                                     | 2    | 3    | 7    | 10   | 11   | 12   | 12   | 13   | 13   |
| Estimated Outlays                   | 28                                     | 13   | 13   | 15   | 12   | 11   | 12   | 12   | 13   | 13   |
| <b>CHANGES IN REVENUES</b>          |  |      |      |      |      |      |      |      |      |      |
| Estimated Revenues                  | 4                                      | 10   | 10   | 8    | 2    | 0    | 0    | 0    | 0    | 0    |

NOTE: \* = less than \$500,000.

**Increase Death Gratuity.** Section 643 would increase the death gratuity from \$6,000 to \$12,000 and would apply retroactively to deaths occurring on or after September 11, 2001. CBO assumes that DoD would make a second death gratuity payment of \$6,000 in fiscal

year 2004 to those survivors who had already received the gratuity available prior to this change. Based on data from DoD on the number of servicemembers who died in 2002, assumptions about the number of deaths that occurred during the last three weeks of fiscal year 2001, and estimates of number of deaths likely to occur in fiscal year 2003, CBO estimates that DoD would pay about \$22 million in 2004 to about 3,800 survivors who had already received the smaller death gratuity. (The discretionary costs associated with this section are discussed earlier in the “Spending Subject to Appropriation” discussion.)

**Marine Corps Heritage Center.** Section 1033(c) would authorize the Secretary of the Navy to accept a guarantee of future gifts to pay for construction of the Marine Corps Heritage Center, a museum to be built at Quantico, Virginia. Public Law 106-398 authorized the design and construction of the Marine Corps Heritage Center, as part of a joint venture between the Department of the Navy and the Marine Corps Heritage Foundation. The Foundation is currently soliciting private donations to finance the construction of the center. Because it lacks the expertise to do so, the Foundation plans to have the Navy contract for and supervise the construction. Under current law, the Navy cannot begin construction until the Foundation has collected sufficient funds to cover the entire cost of the project. By authorizing the Navy to accept a guarantee of future gifts, the Navy could begin construction of the center before receiving all the needed funds from the Foundation. Thus, this section would provide contract authority, a form of budget authority, which is scored as direct spending. This contract authority would be liquidated over time as the Marine Corps Heritage Foundation received donations and transferred those amounts to the Navy. Based on information provided by the Marine Corps Heritage Foundation, CBO estimates that enacting this provision would increase direct spending by \$4 million in 2004 and \$34 million over the 2004-2013 period. (Gifts and donations are recorded in the budget as revenues. CBO’s estimate of the revenues that would be collected under this provision are discussed below under the heading of “Revenues.”)

**National Call to Service Program.** Section 535 would change the method of funding for education benefits offered as an enlistment incentive to National Call to Service participants. Under section 535, these education benefits would be paid from the DoD Education Benefits Fund instead of the military personnel accounts. Paying benefits from the fund would convert these payments from discretionary outlays to direct spending. As discussed earlier in the “Spending Subject to Appropriation” section under the same heading, CBO estimates that enacting section 535 would increase direct spending for veterans education benefits by about \$12 million over the 2004-2008 period and by \$58 million over the 2004-2013 period and decrease spending subject to appropriation by an identical amount.

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

*In-Kind Consideration for Easements.* Currently, DoD can grant easements over federal property it controls for purposes such as the construction or operation of streets, railroads, utility or communication transmission lines, dams, and other such facilities. In exchange for these easements, the department is authorized to collect receipts, which are deposited into a special fund in the Treasury and is also authorized to spend those receipts, upon further appropriation by the Congress. Section 2812 would authorize DoD to accept consideration in-kind for any easement it grants. Such consideration could take the form of facility maintenance and repair services, facility operation support, construction projects, or other services. According to information provided by DoD, it expects to collect approximately \$16 million in receipts annually from leases and easements. CBO assumes that \$4 million of these receipts are from easements. CBO believes that in addition to granting new easements in exchange for in-kind consideration, DoD would also choose to accept in-kind consideration for half of the easements it has already granted that currently generate cash receipts. CBO estimates that in doing so, DoD would reduce collections by \$2 million per year, thus increasing direct spending by \$2 million in 2004, and \$20 million over the 2004-2013 period.

CBO estimates that enacting other provisions in title XXVIII 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 unlikely to be declared excess and sold or is likely to be given away.

**Waiver of Time-in-Grade Requirement for Retirement.** The Secretary of Defense currently has the authority to reduce, from three years to two years, the length of time senior officers must serve in a grade before being allowed to retire in that grade. Section 521 would make that authority, which is currently scheduled to expire on December 31, 2003, permanent. Based on information from DoD, CBO estimates that reducing the time-in-grade requirement would cause about 15 officers in the ranks O-7 to O-10 to retire each year at one grade higher than they otherwise would. CBO estimates that enacting this measure would cost less than \$500,000 in 2004, \$2 million over the 2004-2008 period, and \$7 million over the 2004-2013 period.

**Indemnification for Homeland Security Technology.** Section 851 would allow the federal government to indemnify contractors who enter into agreements with state and local governments to provide antiterrorism technologies and services. These agreements would protect contractors against any uninsured liabilities or claims against them due to terrorist acts or unforeseen damages created by their products. Similar indemnification authority is currently authorized for federal contracts related to national defense (50 U.S.C. 1431-1435). Because such indemnification agreements may be executed without the Congress having provided funds to cover these liabilities, CBO believes these commitments represent an unfunded liability for the federal government and should be counted as direct spending.

The potential liability to the U.S. government of enacting this provision would depend on the degree to which the executive branch uses this authority and the likelihood that indemnified contractors become involved in litigation resulting from terrorist acts or unforeseen damages created by their products. DoD has frequently used this indemnification authority in the past, mainly for contracts related to the nuclear weapons program and more recently chemical weapons demilitarization. To date, no claims have been brought against DoD as a result of indemnification agreements. Based on this history as well as the uncertainty associated with terrorist acts, CBO expects that the probability that the federal government would have to pay significant claims under this provision is probably quite low. CBO does not have enough information, however, to estimate the potential costs of this section.

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

- Section 327 would allow the Navy to spend the proceeds received from selling the materials and equipment stripped from naval vessels that are to be used for experimental purposes. Under current law, the Navy may only recover their costs from such stripping activities and any receipts in excess of those costs are required to be deposited into the general fund of the Treasury. The Navy has not deposited any excess funds into the general fund from these activities in recent years. This section also would allow the Navy to use contractors to sell the materials and equipment. Based on information from the Navy, CBO estimates that receipts from the expanded authority would likely total less than \$500,000 a year. Enacting this provision would have no net effect on direct spending, however, because it would allow the Navy to spend any payment that it collects.
- Section 361 would allow the Defense Information Systems Agency to collect and spend reimbursements for services provided to the Navy-Marine Corps Intranet Program. CBO expects the net effect of the collection and expenditure of these proceeds would be insignificant.
- Section 366 would allow the Navy to spend the proceeds it receives when it provides assistance supporting the transfer of decommissioned naval vessels or equipment to governments and private parties. Under current law, any payments that the Navy might receive are deposited in the general fund of the Treasury. Based on information from the Navy, CBO estimates that forgone receipts from this authority would be insignificant, totally less than \$100,000 a year.

- Section 641 would allow the nine combatant commanders to retire in a pay grade no lower than the highest rank they held as a combatant commander. CBO estimates enacting this provision would affect only a few individuals and would increase direct spending by less than \$500,000 over the 2004-2013 period.
- Section 642 would allow the spouses of reservists who die while on inactive-duty training to receive Survivor Benefit Plan (SBP) annuities and would apply retroactively to deaths occurring after September 10, 2001. In the absence of a spouse, or where a spouse subsequently dies, the benefit would be given to any minor children. The surviving spouses are also eligible for dependency and indemnity compensation (DIC), a nontaxable, monthly payment of at least \$948, paid by the Department of Veterans Affairs. Under current law, SBP spousal annuities are reduced by the amount of the DIC payment. Based on information from DoD, CBO estimates that about 30 reservists a year will die while in inactive-duty training status, and that almost all of their spouses would have their SBP annuities totally offset by their DIC benefit. Consequently, we estimate that enacting section 642 would increase direct spending by less than \$500,000 over the 2004-2013 period.
- Section 821 would extend authority for DARPA to provide services to nongovernmental organizations and enter into unconventional cooperative agreements with private contractors for research relating to the development of advanced weapons systems. This provision also would extend the authority for DARPA to collect and spend reimbursements for any services rendered. While outlays would lag behind receipts, CBO does not have enough information to estimate the net outlay effects in any specific year. CBO expects the net effect on direct spending of the collection and expenditure of these proceeds would be insignificant, however.
- Section 852 would create a program whereby states and local governments could purchase antiterrorism technologies and services through federal contracts. Under the provision, state and local governments would be required to pay the full cost of these technologies and services before the contract could be initiated. CBO estimates the net effect on direct spending of the collection and expenditure of these payments would be insignificant.
- Section 914 would allow the Secretary of Defense to carry out a three-year pilot program to determine the feasibility of providing satellite tracking services with DoD assets to non-U.S. government entities. Under such a pilot program, DoD would be allowed to charge fees for these services and spend these payments. According to the Air Force, the proceeds from selling these services would likely be insignificant.

CBO estimates that implementing this provision would have no net effect on direct spending because it would allow DoD to spend any payments that it collects.

- Sections 1032 and 1038 would allow the military services to donate or lend historical artifacts and surplus equipment to museums and municipalities. Some of this equipment might be sold under current law, but CBO estimates the forgone receipts would be less than \$500,000 annually.
- Section 1033(a) would allow the Asia-Pacific Center for Security Studies to accept and spend gifts from U.S. sources. Based on information from DoD, CBO estimates added spending for this purpose would be less than \$500,000 annually. (Gifts and donations are recorded in the budget as revenues. CBO's estimate of the revenues that would be collected under this provision are discussed below under the heading of "Revenues.")
- Section 1034 would allow the National Security Agency (NSA) to contract for living quarters for co-op students, and would allow the NSA to charge the students for this service and credit the proceeds to appropriated accounts. CBO estimates the net result of the collection and expenditure of these proceeds would be insignificant.

## **Revenues**

Section 1013 would direct the Secretary of Defense to create guidelines for disciplinary action when defense travel cards are misused. Disciplinary actions may include imposing civil penalties and fines. Collection of such fines are recorded in the budget as governmental receipts (i.e., revenues). CBO estimates any revenues that result from enactment of this section would total less than \$500,000 annually.

Section 1033 would allow the Department of the Navy to accept donations collected by the Marine Corps Heritage Foundation to pay for the construction of the Marine Corps Heritage Center. CBO estimates that donations received for this purpose would total \$4 million in 2004 and \$34 million over the 2004-2008 period (see Table 4). This section would also allow the Asia-Pacific Center for Security Studies to accept and spend gifts from U.S. sources. Based on information from DoD, CBO estimates gifts received for this purpose would be less than \$500,000 annually.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative proposals that enforce the constitutional rights of individuals. CBO has determined that section 564, which pertains to the voting rights of members of the uniformed services, would fall within that exclusion. Therefore, CBO has not reviewed section 564 for mandates.

The other provisions of S. 1050 contain 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 16, 2003, CBO transmitted a cost estimate for H.R. 1588, the National Defense Authorization Act for Fiscal Year 2004, as ordered reported by the House Committee on Armed Services on May 14, 2003. The House bill would authorize approximately \$398 billion in defense funding for fiscal year 2004—about the same overall amount that S. 1050 would authorize for 2004.

Both H.R. 1588 and S. 1050 would increase direct spending over the 2004-2008 period, but the House bill contains about \$344 million more in estimated direct spending. H.R. 1588 includes a provision, not included in S. 1050, that would increase the amount that DoD can spend to finance special authorities for the construction and renovation of military family housing. CBO estimated that enacting that provision would increase direct spending by \$377 million over the 2004-2008 period and \$409 million over the 2004-2013 period. Differences in the other estimated costs reflect differences in the legislation.

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