



**CONGRESSIONAL BUDGET OFFICE  
COST ESTIMATE**

July 21, 2004

**S. 2400  
Ronald W. Reagan  
National Defense Authorization Act for Fiscal Year 2005**

*As passed by the Senate on June 23, 2004*

**SUMMARY**

S. 2400 would authorize appropriations totaling about \$445 billion for fiscal year 2005 and \$4.1 billion for fiscal years 2006 through 2009 for the military functions of the Department of Defense (DoD), for the activities of the Department of Energy (DOE), and for other purposes. 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 \$444 billion over the 2005-2009 period.

The act also contains provisions that would raise the costs of discretionary programs, primarily for defense, over the 2006-2009 period. CBO estimates that those provisions would require additional appropriations of almost \$24 billion over those four years. The bulk of those costs would stem from implementing sections that would increase the active-duty endstrength of the Army over the 2005-2009 period to support operations in Iraq and Afghanistan, and that would expand health care for reservists.

The act contains provisions that would both increase and decrease on-budget direct spending, primarily from amending the authority to purchase 100 KC-767 tankers, phasing out reductions in survivor benefit plan annuities, and eliminating the 10-year phase-in of full concurrent receipt for eligible retirees who are rated by the Department of Veterans Affairs as 100 percent disabled. We estimate that those provisions combined would increase on-budget direct spending by \$64 million in 2005, but decrease such spending by about \$6.5 billion over the 2005-2009 period and almost \$15 billion over the 2005-2014 period. Those totals include estimated net receipts from asset sales of \$100 million over the 2005-2014 period. (Asset sale receipts are a credit against direct spending.) The act also contains a provision that would increase off-budget direct spending for the U.S. Postal Service (USPS) by \$6 million in 2005 but would have no net cost over the 2005-2014 period.

Finally, the act also would increase revenues by raising the maximum civil penalty for broadcasting obscene, indecent or profane material. (Such penalties are recorded in the budget as revenues.) CBO estimates that revenues resulting from these higher penalties would increase by less than \$500,000 annually through 2009.

## **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of S. 2400 is shown in Table 1. Although the costs of this legislation fall within a variety of budget functions as detailed below, most costs fall within budget function 050 (national defense).

## **BASIS OF ESTIMATE**

Most of the legislation's budgetary effects would fall within the discretionary spending category, but there are many provisions that would affect direct spending, with an estimated net decline in such spending of about \$15 billion over the next 10 years—relative to CBO's baseline. Finally, S. 2400 would have some very small effects on federal revenues (less than \$500,000 a year).

## **Spending Subject to Appropriation**

The act would specifically authorize appropriations totaling \$443.4 billion in 2005 for defense programs (see Table 2). Those costs would fall within budget function 050 (national defense). The act also would authorize an estimated \$1.4 billion in 2005 and \$4.1 billion in appropriations over the 2006-2009 period for a host of other programs, which would have costs in almost all budget functions, but primarily in function 350 (agriculture), function 450 (community and regional development), function 600 (income security), and function 750 (administration of justice). After adding estimated authorizations for 2005 of \$127 million for the Coast Guard Reserve and \$86 million for various federal agencies for employee reservist pay, the act would authorize an estimated \$445 billion in 2005. The authorizations for those other programs are discussed later in the estimate, just before the section on direct spending.

**TABLE 1. BUDGETARY IMPACT OF S. 2400, THE RONALD W. REAGAN NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2005, AS PASSED BY THE SENATE**

	By Fiscal Year, in Millions of Dollars					
	2004	2005	2006	2007	2008	2009
<b>SPENDING SUBJECT TO APPROPRIATION</b>						
Spending Under Current Law for Programs Authorized by S. 2400						
Budget Authority <sup>a</sup>	457,905	0	0	0	0	0
Estimated Outlays	450,514	162,380	48,507	16,126	6,332	2,833
Proposed Changes						
Authorization of Regular Appropriations						
Estimated Authorization Level	0	420,053	1,027	1,026	1,024	1,024
Estimated Outlays	0	282,765	94,192	27,516	9,727	4,470
Authorization of Appropriations for Military Operations in Iraq and Afghanistan						
Authorization Level	0	25,000	0	0	0	0
Estimated Outlays	0	19,398	4,469	604	265	113
Spending Under S. 2400						
Estimated Authorization Level <sup>a</sup>	457,905	445,053	1,027	1,026	1,024	1,024
Estimated Outlays	450,514	464,543	147,168	44,246	16,324	7,416
<b>CHANGES IN DIRECT SPENDING (EXCLUDING ASSET SALES)</b>						
On-Budget Effects						
Estimated Budget Authority	0	-3,170	-764	-1,865	-1,849	-1,976
Estimated Outlays	0	87	-850	-1,682	-2,085	-1,908
Off-Budget Effects						
Estimated Budget Authority	0	6	4	-1	-1	-1
Estimated Outlays	0	6	4	-1	-1	-1
<b>ASSET SALES <sup>b</sup></b>						
Estimated Budget Authority	0	-23	-15	-15	-15	-40
Estimated Outlays	0	-23	-15	-15	-15	-40
<b>CHANGES IN REVENUES</b>						
Civil Penalties for Broadcast Indecency	0	*	*	*	*	*

NOTES: The authorization levels under "Proposed Changes" include both specified and indefinite authorizations for 2005-2009 that are explicitly contained in the act, plus inferred authorizations for 2005 for the Coast Guard Reserve and for various agencies for federal employee reservist pay. For indefinite authorizations, the act would authorize "such sums as are necessary." For purposes of this estimate, CBO has estimated both indefinite and inferred authorizations.

The act also would implicitly authorize programs in 2006-2009; those authorizations are not included above (but are shown in Table 3) because funding for those programs would be covered by authorizations and appropriations in future years.

\* = less than \$500,000.

a. The 2004 level is the amount appropriated for programs authorized by the act (including \$65,147 million in appropriations in Public Law 108-106, the Emergency Supplemental Appropriations Act for Defense and the Reconstruction of Iraq and Afghanistan, 2004). This level is higher than the comparable figure presented in CBO's cost estimate of S. 2400, the National Defense Authorization Act for Fiscal Year 2005, as reported by the Senate Committee on Armed Services on May 11, 2004. S. 2400, as passed by the Senate, authorizes appropriations for some existing programs that would not be authorized under the earlier version of the act.

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

**TABLE 2. SPECIFIED AUTHORIZATIONS IN S. 2400 FOR DEFENSE PROGRAMS,  
AS PASSED BY THE SENATE**

	By Fiscal Year, in Millions of Dollars				
	2005	2006	2007	2008	2009
<b>CHANGES IN SPENDING SUBJECT TO APPROPRIATION</b>					
Authorization of Regular Appropriations					
Department of Defense (DoD)					
Military Personnel					
Authorization Level	104,483	0	0	0	0
Estimated Outlays	102,169	1,478	209	104	0
Operation and Maintenance					
Authorization Level	139,532	0	0	0	0
Estimated Outlays	102,595	29,216	4,484	1,680	713
Procurement					
Authorization Level	77,986	0	0	0	0
Estimated Outlays	24,449	29,465	14,265	5,261	2,063
Research and Development					
Authorization Level	68,601	0	0	0	0
Estimated Outlays	36,681	25,445	4,998	869	232
Military Construction and Family Housing					
Authorization Level	9,823	0	0	0	0
Estimated Outlays	2,417	3,522	2,197	928	434
Revolving and Management Funds					
Authorization Level	2,895	0	0	0	0
Estimated Outlays	1,955	685	148	67	33
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	735	-159	-315	-159	-51
Undistributed Reduction					
Authorization Level	-1,670	4	0	0	0
Estimated Outlays	-478	-723	-314	-92	-32
Subtotal, DoD					
Authorization Level	401,650	0	0	0	0
Estimated Outlays	270,523	88,929	25,672	8,658	3,392

(Continued)

**TABLE 2. CONTINUED**

	By Fiscal Year, in Millions of Dollars				
	2005	2006	2007	2008	2009
Atomic Energy Defense Activities					
Authorization Level	16,754	0	0	0	0
Estimated Outlays	11,500	4,369	885	0	0
Subtotal, Authorization of Regular Appropriations					
Authorization Level	418,404	0	0	0	0
Estimated Outlays	282,023	93,298	26,557	8,658	3,392
Authorization of Appropriations for Military Operations in Iraq and Afghanistan					
Military Personnel					
Authorization Level	2,000	0	0	0	0
Estimated Outlays	1,990	0	0	0	0
Operation and Maintenance					
Authorization Level	20,500	0	0	0	0
Estimated Outlays	15,783	3,906	379	215	95
Miscellaneous					
Authorization Level	2,500	0	0	0	0
Estimated Outlays	1,625	563	225	50	18
Subtotal, Iraq and Afghanistan					
Authorization Level	25,000	0	0	0	0
Estimated Outlays	19,398	4,469	604	265	113
Total Specified Authorizations					
Authorization Level <sup>a</sup>	443,404	0	0	0	0
Estimated Outlays	301,421	97,767	27,161	8,923	3,505

a. This amount, plus the authorizations of appropriations shown in Table 4 and the inferred authorizations of appropriations for 2005 of \$127 million for the Coast Guard Reserve and of \$86 million for federal employee reservist pay shown in Table 3, comprise the amounts for "proposed changes" in Table 1.

This estimate assumes that the amounts authorized for next year will be appropriated near the start of fiscal year 2005. The pending conference report for H.R. 4613, the Department of Defense Appropriations Act, 2005, contains regular appropriations of \$390.5 billion for DoD programs. That amount is \$1.3 billion less than would be authorized for those programs by S. 2400—excluding authorizations of \$9.8 billion for military construction and family housing, which are funded in a separate appropriation act. Estimated outlays are based on historical spending patterns for existing programs.

Although most of the funding authorized by the act would be for full-year costs of routine programs, \$25 billion of the authorized amount for 2005 would be for DoD costs associated with continuing operations in Iraq and Afghanistan. The pending conference report for H.R. 4613 contains appropriations of \$25 billion for those military operations. Although that amount is equal to the level that would be authorized by S. 2400, the appropriations will be available for obligation in fiscal year 2004, and therefore, will be counted as budget authority in that year, not in 2005. CBO expects full-year costs of those operations to greatly exceed \$25 billion; earlier this year, the Administration indicated that it plans to submit a full supplemental request early in 2005.

The act also contains provisions that would affect various costs, mostly for increases in endstrength, military compensation, and health benefits that would be covered by the fiscal year 2005 authorization and by authorizations in future years. Table 3 contains estimates of those amounts. In addition to the costs that would be covered by explicit authorizations for 2005 through 2009, these provisions would raise estimated costs by almost \$24 billion over the 2006-2009 period. (While the majority of the provisions in the act are identical to provisions in the committee-reported bill, the act also includes a number of provisions affecting spending subject to appropriation that were not included in that version of the legislation or were amended during Senate floor action. These provisions are described below along with CBO's estimates of the costs. See CBO's estimate of S. 2400, the National Defense Authorization Act for Fiscal Year 2005, as reported by the Senate Committee on Armed Services, dated May 21, 2004, for the basis of estimates for provisions that are unchanged from the reported version of the legislation.)

**Army Endstrength.** Section 401 would increase the active-duty endstrength for the Army by 20,000 and require that the costs associated with this increase be paid from funds provided for 2005 for either a contingent emergency reserve or as an emergency supplemental appropriation. CBO has included the cost of this endstrength increase in its estimate of the costs to implement section 402, which would give the Secretary of Defense the authority to increase the Army's active-duty endstrength by up to 30,000, as necessary, over the 2005-2009 period to support its missions in Iraq and Afghanistan. (Thus, CBO estimates no cost associated with section 401 beyond the amounts estimated for the committee-reported version of the legislation.)

**Survivor Benefit Plan (SBP) Benefits.** Section 644 would authorize the elimination, phased in over 10 years, of the reduction in the SBP annuity that takes place when survivors of retirees of the uniformed services reach age 62.

**TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN S. 2400, AS PASSED BY THE SENATE <sup>a</sup>**

	By Fiscal Year, in Millions of Dollars				
	2005	2006	2007	2008	2009
<b>MULTIYEAR PROCUREMENT</b>					
Lightweight 155-Millimeter Howitzer	-38	-40	-40	-45	0
<b>FORCE STRUCTURE</b>					
Restrictions on Retiring Air Force Aircraft	125	0	0	0	0
Navy and Air Force Active-Duty Endstrengths	-430	-879	-903	-930	-958
Reserve Component Endstrengths	43	89	92	95	99
Army Active-Duty Endstrengths	969	1,487	2,547	3,148	3,246
Coast Guard Reserve Endstrength	120	0	0	0	0
<b>COMPENSATION AND BENEFITS</b>					
Expiring Bonuses and Allowances	621	551	332	224	172
Extending Increase in Family Separation and Imminent Danger Pay	306	329	271	265	268
Two-year Extension of Telecommunication Benefit	86	69	0	0	0
Increase Federal Share of Guard Challenge Program	6	11	17	17	17
New Bonus for Reserve Officers	1	1	1	1	1
Survivor Benefit Plan Accrual	439	437	447	462	474
<b>CIVILIAN PERSONNEL</b>					
Increase Acquisition Workforce	251	765	1,306	1,610	1,660
Federal Employee Reservist Pay	86	44	38	35	31
<b>DEFENSE HEALTH PROGRAM</b>					
TRICARE for Reservists	217	562	967	1,147	1,243
Payments for Private Health Insurance	517	379	251	166	142
TRICARE for Members of Coast Guard Reserves	7	10	12	13	14
Pre-Activation Health Care Coverage	121	161	160	159	156
Transitional Health Care Coverage	269	359	356	353	348
<b>OTHER PROVISIONS</b>					
Land Conveyance, Louisiana Army Ammunition Plant	0	-11	-4	-4	-4
Support of Los Alamos Public School District	0	8	8	8	8
<b>TOTAL ESTIMATED AUTHORIZATIONS</b>					
Estimated Authorization Level <sup>a</sup>	3,716	4,332	5,858	6,724	6,917

NOTE: For every item in this table except the authorizations for the Coast Guard Reserve and for federal employee reservist pay, the 2005 levels are included in Table 2 as amounts specifically authorized to be appropriated in the act. Amounts shown in this table for 2006 through 2009 are not included in Table 1.

a. These amounts do not include the cost of sections 616, 906, and 1101 because CBO cannot estimate such costs at this time.

The military retirement system, which pays annuities to military retirees and their survivors, is financed in part by an annual payment from appropriated funds to the military retirement trust fund, based on an estimate of the system's accruing liabilities. If this provision is enacted, the yearly contribution to the military retirement trust fund (an outlay in budget function 050) would increase to reflect the added liability from the expected increase in annuities to future retirees. Using information from DoD, CBO estimates that implementing this provision would increase such payments by \$439 million in 2005 and about \$2.3 billion over the 2005-2009 period. CBO estimates that enacting this provision would also increase direct spending for military retirement benefits by about \$2.4 billion over the 2005-2014 period. CBO's estimate of those costs is discussed below under the heading of "Direct Spending."

**Increase in the Size of the Acquisition Workforce.** Section 841 would increase the size of the acquisition workforce within DoD by 5 percentage points for each of the next three years or about 6,700 positions each year. According to DoD, 10 percent of the current acquisition workforce are military personnel and the remainder are civilians. Given the current operating tempo of the military, CBO assumes that the majority of the increase would be newly hired civilians. With an average cost for compensation and benefits of about \$75,000 for a DoD civilian employee, CBO estimates that increasing the size of the acquisition workforce as required by this section would cost about \$250 million in 2005 and increase to about \$1.7 billion a year by 2009.

**Federal Employee Reservists Pay.** Section 1110 would authorize an increase in federal salaries to pay for the difference between civilian and military compensation for federal employees called to active duty in the uniformed services or National Guard. The legislation also would authorize the appropriation of \$100 million for retroactive pay for the difference between civilian and military compensation for federal employees activated since October 11, 2002. Based on information from DoD, CBO estimates that implementing this provision would cost more than the \$100 million specifically authorized by the bill.

CBO estimates that implementing section 1110 would cost \$186 million in 2005 and \$334 million over the 2005-2009 period. (The estimated costs of this provision in excess of the \$100 million specifically authorized for retroactive pay is shown in Table 3. The \$100 million that would be specifically authorized by this provision for retroactive pay is shown in Table 4). CBO estimates that enacting this legislation also would increase the off-budget costs of the U.S. Postal Service by \$10 million over the 2005-2006 period. However, over the 2005-2014 period, we expect this provision to have no net cost to the USPS. CBO's estimate of those costs is discussed below under the heading of "Direct Spending."

Based on information from DoD, CBO estimates that federal employees account for approximately 120,000 positions or almost 15 percent of the total Ready Reserve (which

includes the Selected Reserve and the Individual Ready Reserve/Inactive National Guard). For this estimate, we assume that 15 percent of those reserves called to active service at any time are federal employees.

In a 2000 DoD survey of 35,000 reserve personnel, 59 percent of surveyed reservists (including federal employees) reported either no difference in their income while on active-duty military status, or an increase in their income while on active duty, while 41 percent reported a loss of income during mobilization and deployment. For this estimate, CBO assumes that these self-reported survey data are applicable to the current call-up of reservists and National Guard forces.

Of the 41 percent of survey respondents who reported a loss of income during military reserve service, most (about 70 percent) said their income was reduced by \$3,750 or less while on active duty. On the other hand, some reported much larger losses. For example, approximately 7 percent of those reporting an income loss indicated a loss of \$37,000 to \$50,000 annually. Considering the loss in income reported by all survey respondents and the number who reported no loss or an increase in salary, CBO estimates that the average annual reduction in salary while serving in the active-duty military is about \$3,000.

The cost of implementing the legislation following enactment depends on the size of the future reserve force, which in turn depends on the duration of the military operations in Iraq and Afghanistan and force size required for it, as well as the size and duration of any future military conflicts, all of which are very uncertain. For this estimate, CBO assumes that the total number of reservists on active duty will decline from about 160,000 person-years in fiscal year 2005 and to about 87,500 person-years by 2009. If the number of reservists called to active duty were to remain at current levels over the 2005-2009 period, the cost of implementing section 1110 would be significantly greater.

Based on the above assumptions about the future size of the reserve force, CBO estimates that an average of about 21,000 federal employees will be on active-duty military service in fiscal year 2005, diminishing to approximately 11,500 by 2009. On that basis, CBO estimates that the prospective costs of implementing this provision would total \$58 million in 2005 and \$206 million over the 2005-2009 period, assuming the appropriation of the necessary amounts.

Section 1110 also would authorize the appropriation of \$100 million for the cost of providing the difference between military and civilian pay since October 11, 2002. Based on information about the use of military reserves and National Guard, CBO estimates that about 35,000 person-years of active duty military service will have been performed by federal employees from October 11, 2002, through September 30, 2004, when we assume the act will be signed into law. Using the above assumptions on the average annual reduction in salary

while serving in active duty, CBO estimates the retroactive pay would cost \$128 million over the 2005-2006 period.

**TRICARE for Reservists.** Section 706 would require DoD to provide expanded health care benefits to members of the Selected Reserve. (In addition, section 701 would require the department to conduct a demonstration project for the same purpose of providing health care benefits, but CBO believes that the demonstration project would be subsumed by section 706.) Members of the Selected Reserve 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. Assuming that DoD implements this program in January 2005, CBO estimates that implementing section 706 would cost \$217 million in 2005 and \$4.1 billion over the 2005-2009 period, assuming appropriation of the necessary amounts.

Under current law, reservists and their families can only participate in TRICARE while the reservist is called to active duty—with one exception. Current law, which expires on December 31, 2004, allows reservists who are unemployed or without employer-sponsored insurance to enroll in TRICARE, provided the reservists pay a premium equal to 28 percent of DoD's expected costs for this benefit. As of the date of this estimate, DoD has not implemented the law allowing such enrollment. Under section 706, any member of the Selected Reserve who is in an inactive status (i.e., not on active duty) and not eligible to participate in the Federal Employees Health Benefits Program would be allowed to enroll in and use TRICARE after paying a premium equal to 28 percent of the total cost of providing the insurance.

Based on data from DoD, CBO estimates that this provision would apply to about 670,000 reservists (on average) at any given time during the next five years. Using information from published studies and papers on enrollment in health insurance plans, and comparing the estimated premiums for TRICARE with the premiums in the private sector, CBO estimates that about 40 percent of reservists with dependents and about 30 percent of reservists without dependents would ultimately enroll in TRICARE under this act. On that basis, we project that enrollment resulting from this provision would gradually increase over the first three years of the program and level off at about 250,000 reservists. Based on data from DoD, CBO estimates that in 2005 the average cost to DoD for those reservists who would purchase self-only coverage would be about \$1,600 and the average cost to DoD of self-and-family coverage would be about \$5,500. Enrolled reservists would pay about \$600 for self-only coverage and \$2,200 for self-and-family coverage.

**Payments for Private Health Insurance.** Section 707 would require DoD to pay a portion of private health insurance premiums for reservists called to active duty who are not enrolled in the TRICARE program. This authority would only apply to reservists who have dependents (about 50 percent of those 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. Based on information from DoD, CBO estimates that the average amount DoD would pay towards private premiums would be the same as the total estimated cost of providing TRICARE for self-and-family coverage, or \$7,700 in 2005.

CBO estimates that in 2005 the number of reservists called to active duty will average about 160,000 and that about 60,000 of them would receive this benefit. (The others would have no dependents, would be federal employees, or would not have private insurance.) Based on DoD's implementation of similar policies, we assume that this benefit would be paid retroactively to the date of the legislation's enactment. Thus, CBO estimates that implementing this provision would cost \$517 million in 2005 and about \$1.5 billion over the 2005-2009 period, assuming appropriation of the necessary amounts. If the number of reservists called to active duty over the five-year period differs from this estimate, the cost would change accordingly.

**TRICARE for Members of the Coast Guard Reserve.** The benefits described above—allowing enrollment in TRICARE by reservists who have not been called to active duty and allowing the government to pay private insurance premiums for reservists on active duty—also would apply to the roughly 8,000 members of the Coast Guard Reserve. Accordingly, CBO estimates that implementing this benefit would cost about \$7 million in 2005 and \$56 million over the 2005-2009 period, assuming appropriation of the necessary amounts.

**Land Conveyance, Louisiana Army Ammunition Plant.** Section 2835 would convey to the state of Louisiana approximately 15,000 acres at the Louisiana Army Ammunition Plant in Doyline, Louisiana. In exchange, the state would maintain at least 13,500 acres for military training purposes, and would take over environmental monitoring of industrial facilities at the site. Because it would no longer be responsible for maintaining the facility, CBO estimates that savings from this conveyance would total \$23 million over the 2005-2009 period, assuming appropriations are reduced by the estimated amounts. CBO estimates that enacting this provision also would increase direct spending by \$8 million over the 2005-2009 period and \$22 million over the 2005-2014 period. CBO's estimate of those costs is discussed below under the heading of "Direct Spending."

**Support to Los Alamos Public School District.** Section 3144 would require the Secretary of Energy to amend the contract for operating the Los Alamos National Laboratory to include terms requiring the contractor to provide support to the Los Alamos Public School District for the elementary and secondary education of students in the amount of \$8 million a year

starting in 2006. Assuming that the contractor would pass those costs on to the Energy Department as contract overhead costs, CBO estimates that the costs of implementing this provision would total \$32 million over the 2006-2009 period.

**Payment for National Guard Operations Performed Under Direction of State Governors.** Section 906 would require the federal government to pay for certain operations performed by the National Guard under the direction of a governor. Under this section, the operations would have to be for assistance to federal agencies in carrying out homeland security activities and could not last more than 180 days unless under extraordinary circumstances. Funding assistance could be used for pay and other personnel-related expenses and the operation and maintenance of equipment and facilities. The federal agency receiving support from the National Guard would have to reimburse DoD for payments made to the state. CBO cannot estimate the cost of this provision, though it could be substantial, because it cannot determine what operations might be carried out under this provision.

**Authorizations for Other Programs.** The act also would authorize appropriations for a variety of other programs. Those authorizations—some of which extend beyond 2005—are shown in Table 4 and described below.

*Assistance to Firefighters Act of 2004.* Title XXXV would authorize the appropriation of \$5.85 billion over the 2005-2010 period for grants under subsection (b)(1) of section 33 of the Federal Fire Prevention and Control Act of 1974 (15 U.S.C. 2229) to firefighters and emergency medical services provided by fire departments and volunteer nonprofit organizations. In addition, the act would authorize the appropriation of \$300,000 in 2005 for a study on the adequacy of funding for firefighters. This act would change the nonfederal cost-share from 30 percent of the total assistance provided to 20 percent. In addition, the act would increase the amount that each grantee would be eligible to receive from \$750,000 to a maximum grant of \$2,250,000 or 0.5 percent of the total amount of funds appropriated, whichever is greater. Based on historical spending patterns for this program and assuming appropriation of the authorized amounts, CBO estimates that implementing this title would cost almost \$3.9 billion over the 2005-2009 period, and an additional \$2 billion after that period.

**TABLE 4. AUTHORIZATIONS FOR OTHER PROGRAMS IN S. 2400, AS PASSED BY THE SENATE**

	By Fiscal Year in Millions of Dollars				
	2005	2006	2007	2008	2009
<b>CHANGES IN SPENDING SUBJECT TO APPROPRIATION</b>					
Assistance to Firefighters Act of 2004					
Authorization Level	900	950	1,000	1,000	1,000
Estimated Outlays	315	693	865	983	995
Aerial Firefighting Equipment					
Estimated Authorization Level	300	0	0	0	0
Estimated Outlays	60	60	60	60	60
Federal Employee Reservist Pay					
Authorization Level	100	0	0	0	0
Estimated Outlays	60	40	0	0	0
Energy Employees Special Exposure Cohort					
Estimated Authorization Level	60	52	12	10	9
Estimated Outlays	60	52	12	10	9
Energy Employees Workers Compensation					
Estimated Authorization Level	5	15	14	14	15
Estimated Outlays	3	9	14	14	14
Armed Forces Retirement Home					
Authorization Level	61	0	0	0	0
Estimated Outlays	52	9	0	0	0
Grants to Investigate and Prosecute Hate Crimes					
Authorization Level	5	5	0	0	0
Estimated Outlays	1	4	4	1	0
Grants to Combat Juvenile Hate Crimes <sup>a</sup>					
Estimated Authorization Level	5	5	*	0	0
Estimated Outlays	1	4	4	1	0
Total Changes					
Estimated Authorization Level	1,436	1,027	1,026	1,024	1,024
Estimated Outlays	552	871	959	1,069	1,078

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

a. Also includes administrative costs to combat and prosecute hate crimes.

*Aerial Firefighting Equipment.* Section 1076 would authorize appropriations for the Secretary of Agriculture to purchase 10 aircraft for use in fighting wildfires, subject to certain criteria specified in the act. Based on information from the Forest Service, CBO estimates that implementing this provision would cost \$300 million over the 2005-2009 period, assuming appropriation of the necessary amounts. That estimate assumes that the agency would purchase two aircraft a year over the next five years at a cost of \$30 million each.

*Federal Employee Reservists Pay.* As mentioned above, section 1110 would authorize an increase in federal salaries to pay for the difference between civilian and military compensation for federal employees called to active duty in the uniformed services or National Guard. Section 1110 also would authorize the appropriation of \$100 million for the cost of providing the difference between military and civilian pay since October 11, 2002. Based on information about the use of military reserves and National Guard, CBO estimates that about 35,000 person-years of active-duty military service will have been performed by federal employees from October 11, 2002, through September 30, 2004, when we assume the act will be signed into law. Using the above assumptions on the average annual reduction in salary while serving in active duty and assuming appropriation of the authorized amount, CBO estimates the retroactive pay would cost \$100 million over the 2005-2006 period.

*Energy Employees Special Exposure Cohort.* S. 2400 contains several sections that would make changes to the Energy Employees Occupational Illness Compensation Program Act (EEOICPA) of 2000 (enacted as part of Public Law 106-398). Section 3157 would add three facilities to the special exposure cohort identified under subtitle B of that act. Because they would now be considered part of the special exposure cohort, former employees from these facilities would no longer have to go through the dose reconstruction process to receive compensation under this program. Because many of these former employees would not have received positive determinations through the dose reconstruction process, CBO estimates that a larger number of former energy employees would receive awards if this provision is implemented than would be the case under current law. Awards made under the authority of Subtitle B of the EEOICPA are currently considered to be mandatory payments. Under this provision, however, any awards to former employees of the three specified facilities would be paid from future appropriations to the Department of Labor (DOL). CBO estimates that implementing this provision and paying these additional awards would cost \$60 million in 2005 and \$143 million over the 2005-2009 period, assuming appropriation of the necessary amounts.

*Energy Employee Workers Compensation.* Section 3153 would make changes to subtitle D of the EEOICPA, which establishes a process for awarding workers compensation to Department of Energy contractor employees. Currently, DOE physician panels review medical records to determine whether worker ailments are related to work performed for

DOE. If the panel determines that the ailments are work-related, the former worker can then receive assistance in filing for state workers compensation. Under section 3153, this process would be transferred from DOE to DOL. (DOE requires over \$50 million per year to administer the program under subtitle D. CBO expects that the Department of Labor would most likely require similar amounts.) Under current law, many former workers who receive positive determinations from the review panel will not receive worker's compensation because the companies they worked for no longer exist. This provision would address this issue by making the Department of Labor responsible for paying all compensation, subject to the appropriation of the necessary funds. This section also would allow greater flexibility for compensating the physician panels. On a net basis, CBO estimates that implementing this provision would cost \$3 million in 2005 and \$54 million over the 2005-2009 period, assuming appropriation of the necessary amounts.

*Armed Forces Retirement Home.* Section 422 would authorize the appropriation of \$61 million in 2005 for the Armed Forces Retirement Home. Based on historical spending patterns and assuming appropriation of the authorized amount, CBO estimates this provision would cost \$61 million over the 2005-2006 period.

*Hate Crimes.* Title XXXIV would establish certain hate crimes as new federal offenses and would direct the U.S. Sentencing Commission to consider increasing prison sentences for certain hate crimes involving juveniles. The legislation also would authorize the appropriation of:

- \$5 million for each of fiscal years 2005 and 2006 for the Department of Justice (DOJ) to make grants to state and local governments to investigate and prosecute hate crimes;
- Such sums as may be necessary for DOJ to make grants to state and local governments to combat juvenile hate crimes; and
- Such sums as may be necessary for fiscal years 2005 through 2007 for additional personnel in DOJ and the Department of the Treasury to prevent, investigate, and prosecute hate crimes.

Assuming appropriation of the authorized and estimated amounts, CBO estimates that implementing title XXXIV would cost \$20 million over the 2005-2009 period. These provisions also could affect direct spending and receipts, but we estimate that any such effects would not be significant.

## **Direct Spending**

The act contains provisions that would both increase and decrease on-budget direct spending, primarily from amending the authority to purchase 100 KC-767 tankers, phasing out reductions in survivor benefit plan annuities, and eliminating the 10-year phase in of full concurrent receipt for eligible retirees who are rated by the Department of Veterans Affairs as 100 percent disabled. We estimate that those provisions combined would increase on-budget direct spending by \$64 million in 2005, but decrease such spending by about \$6.5 billion over the 2005-2009 period and \$15 billion over the 2005-2014 period. Those totals include estimated net receipts from asset sales of \$100 million over the 2005-2014 period (see Table 5). (Note: the asset sale provisions in S. 2400 did not change from the committee-approved version of the legislation.) The act also would increase off-budget direct spending (by USPS) by \$10 million over the 2005-2006 period but have no net off-budget cost over the 2005-2014 period.

The act includes a number of provisions affecting direct spending that were not included in the committee-reported version of S. 2400 or were amended during Senate floor action. These provisions are described below along with CBO's estimates of the associated costs. (See CBO's estimate of S. 2400, the National Defense Authorization Act for Fiscal Year 2005, as ordered reported by the Senate Committee on Armed Services, dated May 21, 2004, for the basis of estimates for provisions that are unchanged from the reported version of the legislation.)

**KC-767 Tanker Acquisition.** Section 871 would modify the authority provided in the National Defense Authorization Act for Fiscal Year 2004 (Public Law 108-136), which allows the Air Force to acquire 100 KC-767 tankers through a hybrid acquisition strategy to “lease” no more than 20 tanker aircraft and purchase as many as 80 additional aircraft under multiyear procurement authority. Section 871 would delay implementation of the tanker acquisition program until 60 days after the completion of several ongoing studies and reviews, and would require the acquisition to comply with all applicable laws, Office of Management and Budget (OMB) circulars, and regulations. Although there is some doubt as to whether DoD will implement the acquisition program under current law, CBO estimates that modifying the authority in this manner would reduce direct spending, relative to CBO's updated baseline projections, by \$320 million in 2005, \$8.2 billion over the 2005-2009 period, and \$18.5 billion over the 2005-2014 period.

**TABLE 5. ESTIMATED DIRECT SPENDING FROM PROVISIONS IN S. 2400, AS PASSED BY THE SENATE**

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>CHANGES IN ON-BUDGET DIRECT SPENDING (EXCLUDING ASSET SALES)</b>										
<b>KC-767 Tanker Acquisition</b>										
Estimated Budget Authority	-3,619	-1,119	-2,169	-2,098	-2,385	-2,283	-2,562	-2,092	-153	-280
Estimated Outlays	-320	-1,247	-1,986	-2,334	-2,317	-2,355	-2,458	-2,507	-1,970	-1,055
<b>Survivor Benefit Plan (SBP)</b>										
Estimated Budget Authority	-3	128	127	126	328	334	351	346	351	356
Estimated Outlays	-3	128	127	126	328	334	351	346	351	356
<b>SBP Open Window</b>										
Estimated Budget Authority	0	-10	-20	-19	-18	-12	-8	-5	-2	2
Estimated Outlays	0	-10	-20	-19	-18	-12	-8	-5	-2	2
<b>Modification of Phase-In for Concurrent Receipt</b>										
Estimated Budget Authority	176	221	180	130	85	50	28	17	11	7
Estimated Outlays	176	221	180	130	85	50	28	17	11	7
<b>Energy Savings Performance Contracts</b>										
Estimated Budget Authority	272	0	0	0	0	0	0	0	0	0
Estimated Outlays	231	41	0	0	0	0	0	0	0	0
<b>Disability Retirement and Survivor Annuities for Certain Reservists <sup>a</sup></b>										
Estimated Budget Authority	2	4	6	8	10	11	13	14	16	17
Estimated Outlays	2	4	6	8	10	11	13	14	16	17
<b>Residual Contamination at Atomic Weapons Employer Facilities</b>										
Estimated Budget Authority	0	10	9	2	2	1	1	1	1	1
Estimated Outlays	0	10	9	2	2	1	1	1	1	1
<b>Land Conveyance, Louisiana Army Ammunition Plant</b>										
Estimated Budget Authority	0	2	2	2	2	2	3	3	3	3
Estimated Outlays	0	2	2	2	2	2	3	3	3	3
<b>Disability Retirement for Military Academy Students</b>										
Estimated Budget Authority	*	*	*	*	*	*	1	1	1	1
Estimated Outlays	*	*	*	*	*	*	1	1	1	1
<b>Relief from Farm Loan Obligations for Reservists Called to Active Duty</b>										
Estimated Budget Authority	2	0	0	0	0	0	0	0	0	0
Estimated Outlays	1	1	0	0	0	0	0	0	0	0

(Continued)

**TABLE 5. CONTINUED**

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Modification of Military Housing Privatization Statutory Limit										
Estimated Budget Authority	*	0	0	0	0	0	0	0	0	0
Estimated Outlays	*	0	0	0	0	0	0	0	0	0
Subtotal										
Estimated Budget Authority	-3,170	-764	-1,865	-1,849	-1,976	-1,897	-2,173	-1,715	228	107
Estimated Outlays	87	-850	-1,682	-2,085	-1,908	-1,969	-2,069	-2,130	-1,589	-668
<b>ASSET SALES<sup>b</sup></b>										
National Defense Stockpile - Increase Quantity Restrictions on Manganese Ferro Alloy Sales										
Estimated Budget Authority	-8	0	0	0	0	0	0	8	0	0
Estimated Outlays	-8	0	0	0	0	0	0	8	0	0
National Defense Stockpile - Increase Sales Targets from Earlier Authority										
Estimated Budget Authority	-15	-15	-15	-15	-40	0	0	0	0	0
Estimated Outlays	-15	-15	-15	-15	-40	0	0	0	0	0
Subtotal										
Estimated Budget Authority	-23	-15	-15	-15	-40	0	0	8	0	0
Estimated Outlays	-23	-15	-15	-15	-40	0	0	8	0	0
<b>TOTAL CHANGES IN ON-BUDGET DIRECT SPENDING</b>										
Estimated Budget Authority	-3,193	-779	-1,880	-1,864	-2,016	-1,897	-2,173	-1,707	228	107
Estimated Outlays	64	-865	-1,697	-2,100	-1,948	-1,969	-2,069	-2,122	-1,589	-668
<b>TOTAL CHANGES IN OFF-BUDGET DIRECT SPENDING</b>										
Federal Employee Reservist Pay <sup>c</sup>										
Estimated Budget Authority	6	4	-1	-1	-1	-1	-1	-1	-1	-1
Estimated Outlays	6	4	-1	-1	-1	-1	-1	-1	-1	-1

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

- a. See CBO's estimate of S. 2400 dated May 21, 2004, for the basis of this estimate.
- b. Asset sale receipts are a credit against direct spending.
- c. The direct spending levels shown for this provision are the off-budget effects associated with the cost of providing the difference between civilian and military compensation for postal workers called to active-duty military service. The net expenditures of the U.S. Postal Service are classified as "off-budget."

In November 2003, in estimating the cost of the authority provided in section 135 of the National Defense Authorization Act, 2004, CBO assumed that the Air Force would sign a contract similar to the one it negotiated with Boeing in May 2003 to acquire all 100 tankers. Under such a contract, the Air Force would “lease” the first 20 tankers and purchase the last 80 tankers using the special-purpose entity (SPE) that was established to facilitate the tanker lease proposal presented in July of 2003. (CBO believes the proposed transaction for the first 20 aircraft would not qualify as an operating lease, but rather a purchase of the tankers by the federal government. See Congressional Budget Office letter to Honorable John W. Warner dated October 16, 2003, regarding *Alternative Strategies for Acquiring 100 Boeing KC-767 Tanker Aircraft* for more information on CBO’s views and estimates of the Air Force’s plans to acquire tanker aircraft.)

Under such a scenario, the special-purpose entity would make payments to Boeing as it builds the aircraft, then buy the tankers from Boeing once they were built. The SPE would lease the first 20 tankers to the Air Force using the financing arrangement developed for the lease of 100 tankers and sell the last 80 tankers to Air Force at the time of delivery at the prices specified in the negotiated contract. Because subsection (b) of section 135 authorized the Air Force to initiate a contract without regard to whether sufficient funds were available to pay the full costs of that contract, CBO believed the Air Force would request budget authority in the year it intended to make the necessary payments, even though the tankers had been ordered—and the government obligation established—several years earlier.

Thus, under current law, if the Air Force signed a contract to acquire all 100 tankers, CBO believes the Air Force would obligate the government in advance of the appropriations necessary to make lease and purchase payments required under the contract. Consistent with the assumption that the Air Force would use the authority provided in current law to acquire tankers beginning in 2004, CBO included \$18.3 billion in direct spending over the 2004-2014 period in its March 2004 baseline. However, DoD recently announced that it would not proceed with the acquisition of tanker aircraft until it completes an analysis of alternatives of options for meeting the tanker force requirements. Since DoD does not expect to complete that analysis before November 2004, CBO now believes that a contract for KC-767 tankers could not be signed before January 2005. CBO has updated its baseline to reflect this delay and now estimates that if the Air Force proceeds with the tanker acquisition in the manner described above, that action would entail direct spending under current law of \$320 million in 2005, \$8.2 billion over the 2005-2009 period, and \$18.5 billion over the 2005-2014 period.

Section 871 would modify the current-law authority for acquiring tankers in two ways that CBO believes would make it unlikely that the Air Force would acquire tankers in the manner described above. First, the provision would require that the KC-767 tanker acquisition comply with the statutory limitations regarding low-rate initial production. Current law limits the number of aircraft that can be acquired before a weapon system completes

operational testing and evaluation to 10 percent of the planned acquisition. By limiting the initial acquisition to no more than 10 tankers until testing demonstrates that the aircraft is survivable, operationally suitable, and operationally effective, CBO believes the provision would prevent the Air Force from signing one contract for all 100 tankers.

In addition, section 871 would require that the tanker acquisition comply with all laws, OMB circulars, and regulations. Section 8159 of the Department of Defense Appropriations Act, 2002, specifies that any lease of tanker aircraft be consistent with the criteria for an operating lease as defined in OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*. Although OMB initially determined that the financing arrangement proposed by the Air Force in July 2003 qualified as an operating lease, OMB revised its criteria for operating leases in the latest version of the A-11 circular shortly after it approved the Air Force lease proposal. The revised criteria specify that any arrangement involving a leaseback from a public-private venture or special-purpose entity be treated either as a government acquisition or as a capital lease, depending on the amount of private-sector risk. The circular also directs agencies to exclude the cost of any features or enhancements built or added for the government's unique needs or special purposes from the computation of the fair-market value of the leased asset, making it more difficult for the tanker lease to comply with the condition that the present value of the lease payments not exceed 90 percent of the fair market value of the asset. Given the revisions to the criteria for operating leases, CBO believes it is even more unlikely that the financing arrangement for tanker acquisition that CBO assumed in its baseline would now qualify as such.

At this time, it is unclear when DoD will decide to proceed with the previously authorized tanker acquisition plan or whether it will consider alternative approaches to tanker acquisition. Recent revelations surrounding the manner by which the tanker acquisition strategy was determined, as well as the unfavorable conclusions of several studies and reviews have cast significant doubt about whether the Air Force will proceed with any tanker lease or the negotiated contract. However, because no Administration action has occurred other than the announcement to delay a decision, CBO estimates that implementing this provision would reduce direct spending for KC-767 tankers by \$320 million in 2005, \$8.2 billion over the 2005-2009 period, and \$18.5 billion over the 2005-2014 period relative to the updated baseline.

Should the department decide to forgo acquisition under its previously announced acquisition strategy (i.e., using an SPE for third-party financing of the acquisition from Boeing) before this legislation is enacted, CBO will update its estimate to reflect such an action by the Administration. In that case, no savings would arise from terminating the authority in current law.

**Survivor Benefit Plan.** Under current law, survivors of members of the uniformed services are eligible for a survivor annuity if the member died on active duty or, upon retirement, enrolled in the SBP and made monthly premium payments. Section 644 would phase out, over 10 years, the reduction in the SBP annuity that takes place when survivors reach age 62, as well as the supplemental program that offsets it. CBO estimates that enacting this provision would increase direct spending by \$706 million over the 2005-2009 period and about \$2.4 billion over the 2005-2014 period. (CBO estimates that there also would be discretionary costs of \$2.3 billion over the 2005-2009 period associated with this provision. These discretionary costs were discussed earlier in the “Spending Subject to Appropriation” section.)

Section 645 would offer retirees who had chosen not to participate in the SBP a one-year open window to enroll, beginning October 1, 2005. Because new entrants would pay regular premiums plus a penalty premium, CBO estimates that enacting this provision would decrease direct spending by \$67 million over the 2006-2009 period and \$92 million over the 2006-2014 period.

Taken together, CBO estimates that enacting these enhancements to the SBP would increase direct spending by \$639 million over the 2005-2009 period and more than \$2.3 billion over the 2005-2014 period.

**Modification of Phase-In for Concurrent Receipt.** Section 643 would eliminate the 10-year phase in of full concurrent receipt for eligible retirees who are rated by the Department of Veterans Affairs as 100 percent disabled. CBO estimates that enacting this provision would increase direct spending for military retirement by \$175 million in 2005, almost \$800 million over the 2005-2009 period, and just over \$900 million over the 2005-2014 period.

**Energy Savings Performance Contracts (ESPCs).** Section 1091 would extend until October 1, 2005, the authority to enter into ESPCs, which expired on October 1, 2003. Based on the usage of this authority by federal agencies in 2002 and 2003, CBO estimates that extending this authority would increase direct spending by \$231 million in 2005 and \$272 million over the 2005-2006 period.

ESPCs enable federal agencies to enter into long-term contracts with an energy savings company (ESCO), for the acquisition of energy-efficient equipment, such as new windows, lighting, and heating, ventilation, and air conditioning systems. Using such equipment can reduce the energy costs for a facility, and the savings from reduced utility payments can be used to pay the contractor for the equipment over time. Because the government does not pay for the equipment at the time it is acquired, the ESCO borrows money from a nonfederal lender to finance the acquisition and installation of the equipment. When it signs the ESPC,

the government commits to paying for the full cost of the equipment, as well as the interest costs on the ESCO's borrowing for the project. Since the ESCO faces higher borrowing costs than the U.S. Treasury, total interest payments for the equipment acquisition will be higher than if the government financed the acquisition of the equipment directly with appropriated funds.

The obligation to make payments for the equipment and the financing costs is incurred when the government signs the ESPC. Under the expired authority, agencies could use ESPCs to acquire new equipment, paying over a period of up to 25 years, without an appropriation for the full amount of the purchase price. Thus, consistent with governmentwide accounting principles, CBO believes that the budget should reflect that commitment as new obligations at the time that an ESPC is signed, and the authority to enter into these contracts without budget authority for the full amount of the purchase price constitutes direct spending.

**Residual Contamination at Atomic Weapons Employer Facilities.** Section 3151 would extend compensation eligibility under the Energy Employees Occupational Illness Compensation Program Act of 2000 (enacted as part of Public Law 106-398) to employees who worked at facilities with residual contamination, as identified in an October 2003 report by the National Institute for Occupational Safety and Health. Under current law, former employees are eligible for compensation only if they worked on DOE contracts. Enactment of this section would expand eligibility to former workers at about 100 facilities for work done after the completion of DOE work. Because these workers would still be required to go through the dose reconstruction process (a process that determines whether their illness was work-related), CBO believes there would be no additional costs as a result of this expanded eligibility until 2006. The total cost of enacting section 3151 would be \$28 million over the 2006-2014 period, CBO estimates.

**Land Conveyance, Louisiana Army Ammunition Plant.** Section 2835 would convey to the state of Louisiana approximately 15,000 acres at the Louisiana Army Ammunition Plant in Doyline, Louisiana. In exchange, the state would maintain at least 13,500 acres for military training purposes, and would take over environmental monitoring of industrial facilities at the site. Because the Army would forgo approximately \$2 million in receipts it receives annually from leases and timber sales at the installation, CBO estimates that enacting this provision would increase direct spending by \$8 million over the 2006-2009 period and \$22 million over the 2006-2014 period. (CBO also estimates discretionary savings from implementing this provision, assuming appropriations are reduced by the estimated amounts. Those savings were discussed earlier in the "Spending Subject to Appropriation" section.)

**Disability Retirement for Military Academy Students.** Section 717 would define the compensation received by midshipman and cadets at the military academies and the Coast Guard Academy as basic pay. This change would entitle cadets and midshipmen to disability retirement or separation pay if they were to become disabled in the line of duty during their time at the academies. It also would allow an officer who was forced to separate during his or her first eight years of service because of a condition that began at an academy to be eligible for disability retirement or separation pay. In total, CBO estimates that enacting this section would increase direct spending by \$1 million over the 2005-2009 period and by \$4 million over the 2005-2014 period.

**Relief from Farm Loan Obligations for Reservists Called to Active Duty.** Section 655 would direct the Secretary of Agriculture to provide servicing benefits to reservists called to active duty with farm loans from the Farm Service Agency. Under this provision, interest on the loans would be forgiven while the borrowers are on active duty. The provision would allow for the modification of the terms and conditions on outstanding loans and would affect direct spending through a reduction in federal receipts (an offset against direct spending). Direct spending in 2005 and subsequent years would be affected by the loss of interest receipts on any loans made prior to enactment of this provision. Interest receipts would be reduced in 2005 and in future years, although the impact in future years would decline since the number of activated reservists and the amount of outstanding loans obligated before enactment of the legislation are both assumed to decline over time.

CBO estimates that about 150 reservists with farm loans will be activated in 2005 and that the average interest forgiveness for these borrowers would be about \$5,000. CBO estimates that the present value of interest forgone on pre-existing loans to reservists called to active duty in 2005 and subsequent years would total about \$2 million over the 2005-2006 period.

**Modification of Military Housing Privatization Initiative (MHPI) Statutory Limit.** Section 2804 would increase by one dollar the statutory limit on the amount that DoD can invest in projects to build or renovate military family housing. Currently, DoD is authorized to use direct loans, loan guarantees, long-term outleases, rental guarantees, barter, direct government investment, and other financial arrangements to renovate, build, and operate military housing in concert with residential housing developers, but the total value of commitments for all contracts and investments undertaken is limited to \$850 million.

OMB treats each financial element of the family housing privatization projects separately, recording the subsidy costs of direct loans and loan guarantees (as defined by the Federal Credit Reform Act of 1990), ignoring the value of in-kind contributions to a public-private partnership and treating equity contributions as cash. By scoring each transaction in that piecemeal fashion, to date, DoD has been able to acquire approximately \$6 billion in housing while recording the use of only \$540 million in budget authority in the Family Housing

Improvement Fund. In effect, the Administration's accounting enables DoD to record the costs of the projects incrementally over time rather than up front.

CBO believes most MHPI projects are governmental activities—in this case the acquisition, construction, or renovation and operation of a government asset, specifically, family housing for military personnel—financed by a private-sector intermediary who acts as an instrument of the government. In CBO's view, most ventures that borrow funds to construct or refurbish military family housing should be treated as governmental and their investments should be recorded up front, as borrowing authority—a form of budget authority. Amounts expended by these public-private ventures should be recorded in the budget as outlays at the time they occur. As we have stated in past years, CBO continues to believe that OMB's accounting practices for MHPI projects are at odds with governmentwide standards.

Although increasing the statutory investment limit by one dollar is not sufficient to allow DoD to carry out more family housing privatization projects than it would be able to accomplish under current law, CBO notes that because OMB records only part of cost of the transaction, any meaningful increase in the investment limit will enable substantially more governmental activity—approximately nine times more—than is reflected in the budget. (See CBO's estimate of H.R. 4200, the National Defense Authorization Act for Fiscal Year 2005, as reported by the House Committee on Armed Services, dated May 17, 2004, for a more thorough discussion of CBO's scoring of this issue.)

**Federal Employee Reservist Pay.** Section 1110 would authorize an increase in federal salaries to pay for the difference between civilian and military compensation for federal employees called to active duty in the uniformed services or National Guard. This provision would also affect agencies that receive no annual appropriations, such as the U.S. Postal Service. CBO estimates that enacting this legislation would increase off-budget direct spending for the USPS by about \$6 million in 2005 and \$4 million in 2006. Beginning in fiscal year 2007, there would be no net cost from the provision because the USPS is required to set rates to cover its costs, and CBO expects that the next rate increase will occur in 2006. At that time, CBO expects that the USPS also would seek to recover prior unanticipated costs and this provision would have no net cost over the 2005-2014 period. (CBO estimates that there also would be discretionary costs of \$334 million over the 2005-2009 period associated with this provision. These discretionary costs were discussed earlier in the "Spending Subject to Appropriation" section.)

## REVENUES

Enacting section 1084 of S. 2400 would increase the monetary penalties assessed by the Federal Communications Commission (FCC) for broadcasting obscene, indecent, or profane material. For broadcast licensees, the maximum penalty for each violation would increase from about \$25,000 to \$275,000. If the FCC determines that a violation is aggravating in nature, those fines would double. According to the FCC, prior assessments for each violation have been around \$50,000 per year recently—however, annual collections have varied widely.

CBO estimates that, under this provision, collections of penalties for broadcasting obscene, indecent, or profane material would increase by less than \$500,000 annually from 2005 through 2009, for a total of about \$2 million over that period. The increase in collections could be much higher or lower considering that the number of penalties varies widely from year to year.

## **PREVIOUS CBO ESTIMATES**

On May 21, 2004, CBO transmitted a cost estimate for S. 2400, the National Defense Authorization Act for Fiscal Year 2005, as reported by the Senate Committee on Armed Services on May 11, 2004. Differences in the estimated costs reflect floor action in the Senate.

On May 17, 2004, CBO transmitted a cost estimate for H.R. 4200, the National Defense Authorization Act for Fiscal Year 2005, as reported by the House Committee on Armed Services on May 14, 2004. Differences in the estimated costs reflect differences in the two versions of the legislation.

On June 18, 2004, CBO transmitted a cost estimate for S. 2035, the Guard and Reserve Readiness and Retention Act of 2004, as introduced on January 28, 2004. Section 3 of S. 2035 would allow all reservists who are not on active duty to enroll in TRICARE, even if they were employees of the federal government. CBO estimated that implementing section 3 would cost about \$4.6 billion over the 2005-2009 period, subject to the appropriation of the estimated amounts. In addition, this provision would increase direct spending because it would allow federal employees to enroll in TRICARE. As with section 707 of S. 2400, as passed by the Senate, section 4 of S. 2035 would required DoD to pay a portion of the private health insurance premiums for those reservists on active duty, though that provision would expired on December 31, 2005. CBO estimated that implementing section 4 would cost \$642 million over the 2005-2009 period.

On March 8, 2004, CBO transmitted a cost estimate for H.R. 3717, the Broadcast Decency Enforcement Act of 2004, as ordered reported by the House Committee on Energy and

Commerce on March 3, 2004. On April 2, 2004, CBO transmitted a cost estimate for S. 2056, the Broadcast Decency Enforcement Act of 2004, as ordered reported by the Senate Committee on Commerce, Science, and Transportation on March 9, 2004. As with section 1084 of S. 2400, as passed by the Senate, those two bills would impose a similar increase in monetary penalties assessed by the FCC for broadcasting obscene, indecent, or profane material, and therefore, would have similar effects on revenues.

**ESTIMATE PREPARED BY:**

Defense Outlays: Kent Christensen

Health Programs: Sam Papenfuss

Military Personnel, Civilian Personnel, Energy Employees Occupational Illness  
Compensation Program: Michelle Patterson

Military Retirement: Sarah T. Jennings

Air Force Aircraft, Military Construction and Family Housing:  
David Newman

Stockpile Sales and Department of Energy: Raymond J. Hall

Assistance to Firefighters: Julie Middleton

Aerial Firefighting Equipment: Megan Carroll

Federal Employee Reservist Pay: Matthew Pickford

Farm Loans for Reservists: Gregory Hitz

Hate Crimes: Mark Grabowicz

Broadcast Decency and Violent Programming: Melissa Zimmerman

**ESTIMATE APPROVED BY:**

Peter H. Fontaine

Deputy Assistant Director for Budget Analysis