



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

January 25, 2008

H.R. 4986 **National Defense Authorization Act for Fiscal Year 2008**

As cleared by the Congress on January 22, 2008

SUMMARY

H.R. 4986 would authorize the appropriation of about \$688 billion for fiscal year 2008. Those discretionary costs of implementing the act are not discussed here; this cost estimate addresses only the effects H.R. 4986 would have on direct spending and revenues.¹

H.R. 4986 contains provisions that would both increase and decrease direct spending and revenues, including provisions affecting health care for military personnel, retirement and disability benefits, acquisition policy, education benefits, aviation insurance, and Iraqi refugees. H.R. 4986 also would allow the Department of Defense (DoD) to increase sales of certain materials from the strategic stockpile. For purposes of enforcing the fiscal year 2008 budget resolution, CBO estimates that enacting H.R. 4986 would, on net, decrease outlays by \$17 million over the 2008-2012 period and by \$534 million for the years 2008 through 2017. The Joint Committee on Taxation (JCT) estimates that, under the act, revenues would increase by \$74 million and \$229 million over those same years, respectively.

Overall, CBO estimates that enacting H.R. 4986 would decrease direct spending by \$875 million over the 2008-2018 period, and JCT estimates that, on net, enacting H.R. 4986 would increase revenues by \$265 million over that same period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the budgetary effects of provisions that affect direct spending (including proceeds from asset sales) and revenues is shown in Table 1. Those impacts fall primarily

1. For details on discretionary costs associated with earlier versions of the act, see the cost estimate transmitted on May 14, 2007, for H.R. 1585 as reported by the House Committee on Armed Services; the cost estimate transmitted on June 12, 2007, for H.R. 1585 as passed by the House of Representatives; and the cost estimate transmitted on June 21, 2007, for S. 1547 as reported by the Senate Committee on Armed Services. (Those estimates are available at www.cbo.gov.) The earlier versions of the legislation would have authorized a lower amount for 2008 appropriations.

within budget functions 050 (national defense), 400 (transportation), 550 (health), 600 (income security), and 700 (veterans benefits and services).

TABLE 1. SUMMARY OF H.R. 4986's EFFECTS ON DIRECT SPENDING AND REVENUES

	By Fiscal Year, in Millions of Dollars ^{a,b}												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2008-2013	2008-2018
Changes in Outlays	-31	814	-245	-314	-243	-159	-22	2	-109	-231	-341	-176	-875
Changes in Revenues	5	12	12	17	27	27	31	32	25	38	36	101	265

SOURCES: Congressional Budget Office and Joint Committee on Taxation.

- a. For purposes of enforcing the fiscal year 2008 budget resolution, the outlay totals for 2008-2012 and 2008-2017 are -\$17 million and -\$534 million, respectively; the 2008-2012 and 2008-2017 totals for revenues are \$74 million and \$229 million, respectively.
- b. Ten-year costs shown above and in the text may differ slightly from the sum of the annual costs listed because of rounding.

BASIS OF ESTIMATE

H.R. 4986 contains provisions that would both increase and decrease outlays from direct spending, including asset sales. In total, CBO estimates H.R. 4986 would decrease direct spending by \$31 million in 2008 and by \$875 million over the 2008-2018 period (see Table 2 for details). The act also would increase revenues by about \$5 million in 2008 and by \$265 million over the 2008-2018 period, as estimated by JCT.

Direct Spending

The largest effect of H.R. 4986 on direct spending stems from a provision that would require drug manufacturers to provide Federal Supply Schedule Pricing on purchases covered by TRICARE at retail pharmacies. That section would provide about \$6 billion in savings over the 2008-2018 period, CBO estimates. However, CBO estimates those savings would be largely offset over that same period by a number of other provisions that would increase direct spending.

Health Care for Military Personnel and Retirees. Two sections would affect pricing under the TRICARE pharmacy benefit program. Together, CBO estimates those sections would reduce direct spending by \$141 million in 2008 and by \$5.9 billion over the 2008-2018 period.

TABLE 2. ESTIMATED IMPACT OF H.R. 4986 ON DIRECT SPENDING

Section	Outlays by Fiscal Year, in Millions of Dollars ^{a,b}												2008-	2008-
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2013	2018	
HEALTH CARE FOR MILITARY PERSONNEL AND RETIREES														
702 Prohibition on Increase in Pharmacy Copayments	99	0	0	0	0	0	0	0	0	0	0	99	99	
703 Discount Drug Pricing	-240	-390	-420	-460	-500	-540	-580	-630	-680	-740	-810	-2,550	-5,990	
Subtotal	-141	-390	-420	-460	-500	-540	-580	-630	-680	-740	-810	-2,451	-5,891	
MILITARY RETIREMENT AND DISABILITY BENEFITS														
641 Combat-Related Special Compensation	7	70	99	65	67	69	72	74	76	79	81	377	759	
642 Concurrent Receipt	0	1,072	0	0	0	0	0	0	0	0	0	1,072	1,072	
644 Survivor Allowance	0	39	47	56	64	73	82	82	34	0	0	279	477	
647 Early Reserve Retirement	*	2	5	10	14	17	25	32	39	47	57	48	248	
648 Reserve Retirement Calculation	0	*	*	*	*	*	*	*	1	1	1	*	3	
675 Back Pay for WWII POW's	21	0	0	0	0	0	0	0	0	0	0	21	21	
1641 Presumption of Sound Condition	1	2	3	4	5	7	8	10	11	13	15	22	79	
1642 DoD Disability Determinations	3	12	21	26	32	40	49	58	67	76	85	134	469	
1643 Review of Disability Ratings	*	*	3	8	12	13	13	14	14	14	15	36	106	
1646 Disability Severance Pay	<u>1</u>	<u>6</u>	<u>11</u>	<u>14</u>	<u>17</u>	<u>19</u>	<u>20</u>	<u>19</u>	<u>18</u>	<u>18</u>	<u>17</u>	<u>68</u>	<u>160</u>	
Subtotal	33	1,203	189	183	211	238	269	289	260	248	271	2,057	3,394	
ACQUISITION POLICY														
828 Multiyear Contracts for Renewable Energy	0	10	19	29	38	48	48	48	48	48	48	144	384	
852 Acquisition Workforce Development Fund	<u>65</u>	<u>45</u>	<u>20</u>	<u>10</u>	<u>0</u>	<u>140</u>	<u>140</u>							
Subtotal	65	55	39	39	38	48	48	48	48	48	48	284	524	
EDUCATION BENEFITS														
523 ROTC Scholarships	*	2	3	3	3	3	3	3	3	4	4	14	31	
528 Benefits for Certain Reserve Members	-1	9	18	14	13	12	11	10	10	9	9	65	114	
529 Reservists Affected by Force Shaping	0	1	1	1	1	1	1	0	0	0	0	5	6	
530 Reservists Supporting Contingency Operations	<u>45</u>	<u>44</u>	<u>35</u>	<u>29</u>	<u>23</u>	<u>19</u>	<u>16</u>	<u>14</u>	<u>13</u>	<u>12</u>	<u>11</u>	<u>195</u>	<u>261</u>	
Subtotal	44	56	57	47	40	35	31	27	26	25	24	279	412	

(Continued)

TABLE 2. CONTINUED

Section	Outlays by Fiscal Year, in Millions of Dollars ^{a,b}											2008-2008-	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2013	2018
MATTERS RELATING TO FOREIGN NATIONS													
1241-													
1249 Iraqi Refugee Crisis	1	13	23	29	30	32	32	29	28	28	26	129	273
1253 Spending of Reimbursements from Palau	*	*	*	*	*	*	*	*	*	*	*	1	2
Subtotal	1	13	23	29	30	32	32	29	28	28	26	130	275
OTHER SECTIONS THAT AFFECT DIRECT SPENDING													
378 Aviation War Risk Insurance	0	-120	-130	-90	-40	20	170	230	200	150	90	-360	480
1080 Reimbursements for Fire Protection Services	6	6	6	6	6	6	6	6	6	6	6	36	66
1106 Flexibility in Paying Annuities	0	*	*	1	1	2	2	3	3	4	4	4	20
1412 Sale of Defense Stockpile Assets	-40	-10	-10	-70	-30	0	0	0	0	0	0	-160	-160
3116 EEOICP Ombudsman Sunset Date	1	1	1	1	1	0	0	0	0	0	0	5	5
Subtotal	-33	-123	-133	-152	-62	28	178	239	209	160	100	-475	411
Net Changes in Direct Spending Outlays	-31	814	-245	-314	-243	-159	-22	2	-109	-231	-341	-176	-875

Memorandum:

Estimated Changes in Budget Authority and Outlays

Estimated Budget Authority	-6	885	-168	-257	-185	-111	-70	-46	-157	-279	-389	160	-778
Estimated Outlays	-31	814	-245	-314	-243	-159	-22	2	-109	-231	-341	-176	-875

SOURCES: Congressional Budget Office and Joint Committee on Taxation.

NOTES: ROTC = Reserve Officers Training Corps; EEOICP = Energy Employees Occupational Illness Compensation Program; * = between -\$500,000 and \$500,000.

- a. For purposes of enforcing the fiscal year 2008 budget resolution, the outlay totals for 2008-2012 and 2008-2017 are -\$17 million and -\$534 million, respectively. The budget authority totals for those same time periods are \$271 million and -\$389 million.
- b. Ten-year costs shown above and in the text may differ slightly from the sum of the annual costs listed because of rounding.

Prohibition on Increase in Pharmacy Copayments. Section 702 would prohibit DoD from increasing the cost-sharing amounts that beneficiaries would pay for pharmaceutical drugs until 2009. Under current DoD plans, for medications obtained at retail pharmacies, beneficiaries would be charged copayments of \$5 for a one-month supply of generic drugs and \$15 for the same amount of brand-name drugs. Section 702 would keep those copayments at the current amounts of \$3 and \$9, respectively. Those copayment amounts apply to active-duty dependents and all retirees and their dependents. Based on information from DoD about the number and type of drug purchases under the TRICARE For Life

program, CBO estimates that this reduction in planned copayment amounts would increase direct spending under that program by \$99 million over the remainder of 2008.

Discount Drug Pricing. Under current law, DoD is one of several federal agencies that receives from pharmaceutical makers a significantly reduced price for drugs on the Federal Supply Schedule (FSS). Through this program, DoD is able to procure at a discount the drugs that it provides to beneficiaries through its hospital pharmacies and mail-order program. However, under DoD's TRICARE programs, including the TRICARE For Life program for retirees and their dependents age 65 and over, beneficiaries can also fill prescriptions at retail pharmacies. Many drug manufacturers have refused to provide discounted prices to DoD for medications provided to beneficiaries in that manner.

Section 703 would require drug manufacturers to provide FSS pricing on purchases covered by TRICARE at retail pharmacies. Based on information from DoD about prescriptions filled at retail pharmacies by retirees and their dependents age 65 and over, CBO estimates that implementing this section would reduce direct spending by \$2.6 billion over the 2008-2013 period, and \$6.0 billion over the 2008-2018 period. This estimate is based on the difference between what DoD currently pays drug manufacturers for prescriptions filled at retail pharmacies and the FSS prices for those drugs. The estimate takes into account price inflation and projected increases in drug usage, resulting in increased savings in future years.

Military Retirement and Disability Benefits. Several sections in titles 6 and 16 would enhance military retirement and disability benefits. In total, CBO estimates those sections would increase direct spending by \$3.4 billion over the 2008-2018 period.

Combat-Related Special Compensation (CRSC). Currently, disabled servicemembers who are allowed to retire with less than 20 years of service see their retirement annuity offset or reduced by any amount of disability compensation that they receive from the Department of Veterans Affairs (VA). Under this provision, those whose VA-rated disability is related to combat, hazardous duty, or military training would be eligible to receive CRSC, which replaces part or all of the portion of their retirement annuity that is offset by VA disability compensation. (CRSC is currently offered only to those who retire with 20 or more years of service.) Based on information from DoD, CBO estimates this provision would increase direct spending by \$759 million over the 2008-2018 period.

Concurrent Receipt. Section 642 would allow military retirees with over 20 years of service and who are classified by the VA disability rating system as unemployable to receive their full retirement annuity without a corresponding reduction resulting from the receipt of VA compensation. Under current law, this offset is scheduled to be phased out at the beginning of 2010 for those classified as unemployable. Section 642 would retroactively end the offset

as of January 2005, allowing those retirees to receive about three years worth of back payments plus increased retirement annuities in fiscal years 2008 and 2009. However, section 642 stipulates that none of the additional payments, retroactive or otherwise, would be payable until 2009. Under this provision, CBO estimates about 35,000 retirees would receive additional payments totaling about \$1.1 billion in 2009.

Survivor Allowance. Currently, servicemembers' survivors who are entitled to both Survivor Benefit Plan (SBP) benefits and Dependency and Indemnity Compensation (DIC) see their SBP benefit reduced dollar-for-dollar by the amount of the DIC payment they receive. Section 644 would provide a monthly allowance of \$50 (or the amount offset from their SBP, whichever is less) to about 60,000 survivors. The allowance would increase by \$10 each year until it reaches \$100 per month in 2014. Because this provision would not take effect until fiscal year 2009 (and would terminate five months into fiscal year 2016), CBO estimates that enacting this provision would not affect direct spending in 2008, but would increase direct spending by \$477 million over the 2009-2016 period.

Early Reserve Retirement. Under current law, members of the reserve components may not receive retirement annuities for their service until they reach 60 years of age. Section 647 would allow retired reservists to receive such annuities earlier if they were called to active duty as a reservist and served for at least 90 days. Under this proposal, for every 90 days reservists are activated after enactment of H.R. 4986, they would be eligible to begin receiving their retirement annuities 90 days earlier than they otherwise would.

Relatively few reservists would be able to take advantage of this provision in the near future. As most reservists stop active participation in the reserves well before their 60th birthday, few reservists nearing retirement over the next decade will have served on active duty during that period. Therefore, the full annual costs of this provision would occur more than 10 years after enactment and are not reflected in this estimate. Based upon information from DoD, CBO estimates that enacting this provision would have an insignificant effect on direct spending in 2008, would increase direct spending by \$48 million over the 2008-2013 period, and by \$248 million over the 2008-2018 period.

Reserve Retirement Calculation. Section 648 would increase from 90 to 130 the annual number of training points that reserve members can accumulate and apply to calculations of their retirement annuities. CBO estimates this change would increase direct spending by \$3 million over the 2008-2018 period; such costs would increase significantly in subsequent decades.

Back Pay for World War II POW's. Section 675 would authorize additional back pay for former Navy and Marine Corps personnel who were selected for promotion during World

War II but were unable to receive the higher rates of pay because they were prisoners of war. The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 previously authorized back pay to those personnel, but that pay was not indexed to inflation. Section 675 would authorize the payment of additional amounts to those individuals to account for changes in the consumer price index. Based on information from DoD, CBO estimates that under section 675 about 1,000 veterans or their survivors would be entitled to a total of about \$21 million in additional compensation.

Presumption of Sound Condition. Section 1641 would decrease the length-of-service requirement for determining whether disabilities should be presumed to be related to military service rather than possibly being the result of a condition that pre-dated entry into the armed forces. Section 1641 would lower the years-of-service requirement for presumption of service-connection from eight years to six months, except in cases where there is compelling medical evidence to suggest that a disability existed prior to military service. Based on data from DoD, CBO estimates that under section 1641 an additional 250 servicemembers would be granted disability retirements each year. We estimate the average retirement annuity in 2008 would be about \$11,500, although much of that would be offset by VA disability payments. On that basis, CBO estimates that enacting section 1641 would increase direct spending for military retirements by \$1 million in 2008 and by \$79 million over the 2008-2018 period.

DoD Disability Determinations. Section 1642 would require the armed services to use the Veterans Administration Schedule for Rating Disabilities (VASRD) and to comply with any interpretations of the schedule as decided by the United States Court of Appeals for Veterans Claims. Currently, while both DoD and VA are required to use the VASRD, they maintain their own interpretations, which have sometimes resulted in different ratings of similar conditions between the two departments. Based on discussions and data from DoD, CBO estimates that this provision would, on average, increase the level of disability ratings granted by DoD.

The increase in ratings would have two effects. First, it would increase the number of personnel granted a disability retirement each year in lieu of a disability separation (individuals must typically be rated as 30 percent or more disabled to receive a disability retirement annuity). CBO estimates the increase in the number of disability retirements would average about 775 each year and that the annuities for those retirees would increase direct spending by \$385 million over the 2008-2018 period. Second, some individuals who would receive a disability retirement under current law would, under this provision, receive a higher disability rating than they otherwise would have, thus increasing their annuity payments. CBO estimates that under section 1642 about 250 disability retirees per year would receive increased annuities, which would increase direct spending by about \$1 million

in 2008 and \$84 million over the 2008-2018 period. In total, CBO estimates that enacting section 1642 would increase direct spending by about \$469 million over the 2008-2018 period.

Review of Disability Ratings. Section 1643 would require DoD to review the cases of any individuals granted disability ratings of 20 percent or less between September 11, 2001, and December 31, 2009. The results of this review would be limited to maintaining or increasing the granted ratings. Based on a comparison of VA and DoD disability ratings and other information from DoD, CBO estimates that about 5 percent of the over 50,000 individuals with disability separations from fiscal years 2002 through 2007 would be upgraded to disability retirements and begin receiving annuities under this provision. Of the disability separations that CBO estimates will take place in 2008 and 2009, CBO estimates about 2 percent would be upgraded to disability retirements. (Other sections of H.R. 4986 would require DoD to begin using a different interpretation of the VASRD schedule, which CBO expects would lead to fewer ratings increases under the review required by this section.) CBO estimates the additional disability retirees created section 1643 would increase direct spending for annuities by less than \$500,000 in 2008 and by \$106 million over the 2008-2018 period.

Disability Severance Pay. Under current law, veterans' disability compensation is reduced by the amount of any disability severance pay they previously received. In effect, after establishing veterans' eligibility, disability compensation is not paid until the amount withheld equals the amount of severance pay received. Section 1646 would eliminate that requirement for veterans whose disabilities were incurred in the line of duty in a combat zone, allowing those veterans to begin receiving VA compensation payments immediately upon separation from active duty.

Based on information from DoD, CBO estimates that for the remainder of 2008 about 800 severance payments will be made to members because of injuries sustained in a combat zone. In 2009, CBO estimates the number of payments will total about 1,800 and will decrease to about 700 by 2018. In total, CBO estimates that enacting section 1646 would increase direct spending for VA disability compensation by \$1 million in 2008, \$68 million over the 2008-2013 period, and by \$160 million over the 2008-2018 period.

Acquisition Policy. Two sections in title 8 (Acquisition Policy, Acquisition Management, and Related Matters) would affect direct spending. In total, CBO estimates those sections would increase direct spending by \$65 million in 2008 and by \$524 million over the 2008-2018 period.

Multiyear Contracts for Renewable Energy. Section 828 would allow DoD to enter contracts for terms of up to 10 years to purchase electricity from renewable sources such as wind or solar power generators. Based on information from DoD, CBO expects that the department would commit to purchasing a guaranteed amount of electricity as part of those contracts, to encourage producers to invest in renewable energy generation equipment and to enable them to acquire financing at favorable interest rates.

When the government enters a contract with a guaranteed purchase amount, it incurs a legal obligation for the full cost of those purchases. However, when DoD has used other multiyear contracting authorities in the past, it has typically obtained budget authority and recorded obligations only for the payments that were due in the first year of the contract, even though its actual contractual obligation exceeded that amount. That method of implementing multiyear procurement authority provides DoD with contract authority—a form of budget authority—because it allows the department to incur an obligation in excess of available appropriations. Budget authority for the full cost of such contracts should be recorded at the time those contracts are signed and outlays should be recorded over the term of the contracts as payments are made for the electricity consumed.

Under current law, DoD is required to obtain 7.5 percent of its electricity from renewable energy sources by 2013. It currently gets about 4 percent of its electricity from such sources. If section 828 were enacted, CBO estimates that DoD would use multiyear contracts to purchase half the additional renewable electricity it needs—nearly 500,000 megawatt hours per year—to meet that requirement. The cost of renewable energy would vary based on the mix of wind, solar, and biomass power generators that were used; CBO estimates that DoD would pay roughly \$100 per megawatt hour of renewable electricity.

CBO assumes that over a five-year period beginning in 2009, DoD would initiate a series of 10-year contracts for even increments of additional electricity at a cost of \$96 million per year until it was acquiring 500,000 megawatt hours of electricity from renewable sources by 2013. Under such contracts, direct spending would increase by \$144 million over the 2009-2013 period, and \$384 million over the 2008-2018 period. The first group of multiyear contracts that would be initiated in 2009 would expire after 2018. At that time, the department would need to enter new contracts for renewable electricity to continue to satisfy the requirement in current law. CBO estimates that in total, such contracts would increase direct spending by about \$50 million each year after 2018.

Acquisition Workforce Development Fund. Section 852 would establish the Defense Acquisition Workforce Development Fund to dedicate funding for recruiting, training, and retaining acquisition personnel in excess of the levels DoD is currently using for those purposes. Deposits to the fund would be based on a percentage of expenditures on contracts

for services in a given year. CBO estimates that over the 2008-2010 period more than \$23 billion will be expended on such contracts from funds that have already been appropriated.

Most contracts for services are paid from appropriations for operation and maintenance, which generally are available for obligation for only one year. For the following five years, those funds—now expired—are available only to record, adjust, or liquidate existing obligations to the account. At the end of that five-year period, any remaining balances are cancelled. (Over \$1 billion in unexpended balances of operation and maintenance funds are cancelled each year.) Expired, unobligated balances are available to pay for an increase in the cost of contracts for which funds were obligated during the period of availability.

CBO expects that the department would treat the requirement to make deposits into the Fund as an increase in the cost of the contracts on which such deposits are based, thus allowing it to use expired, unobligated balances to make the required deposits for expenditures of funds that were appropriated prior to enactment of this act. Thus, this section would make those expired balances available for expenditure, resulting in a reappropriation of those funds. CBO estimates that those reappropriations would increase direct spending by \$140 million over the 2008-2011 period.

Education Benefits. Several sections in title 5 would enhance education benefits for reserve component members. In total, CBO estimates those sections would increase direct spending by \$44 million in 2008 and by \$412 million over the 2008-2018 period.

- Section 523 would increase the number of college students who are eligible to use reserve education benefits while also receiving Reserve Officer Training Corps scholarships.
- Section 528 would modify education benefits for reservists to allow accelerated payment of the monthly benefits—payment of monthly benefits in advance—for courses that are especially expensive. This provision would take effect on October 1, 2008, and would limit such advance payments to an annual total of \$7 million. In addition, section 528 would modify eligibility requirements to allow more reservists to qualify for the maximum reserve education benefit available for reservists who have served on active duty. Section 528 also would allow reservists to increase their monthly education benefit by up to \$150 by making a payment of up to \$600.
- Section 529 would allow reservists whose units are deactivated to remain eligible to receive reserve education benefits after separating from the reserves.

- Section 530 would allow members of reserve components who have served on active duty to remain eligible to receive reserve education benefits for 10 years after separating from the reserves.

Matters Relating to Foreign Nations. Several sections in title 12 would increase direct spending for international programs. In total, CBO and JCT estimate those sections would increase spending by \$1 million in 2008 and by \$275 million over the 2008-2018 period.

Iraqi Refugee Crisis. Subtitle C of title XII would expand certain Iraqis' eligibility to enter the United States as refugees or special immigrants. Iraqi religious minorities and Iraqis who have worked with U.S.-affiliated organizations could apply for priority-two refugee status. Iraqis who worked directly with the U.S. government in Iraq also could apply for special-immigrant visas. Under current law, refugees are eligible to receive certain federal benefits, notably Food Stamps, Medicaid, and Supplemental Security Income (SSI). Subtitle C would make Iraqi special immigrants eligible for those benefits for a period of eight months.

CBO estimates that under H.R. 4986 direct spending for those three programs would increase by \$113 million over the 2008-2013 period and by \$234 million over the 2008-2018 period. Based on information from the Departments of Homeland Security and State, CBO expects that 21,000 additional refugees and 45,000 additional special immigrants (including dependents) would enter the United States over the next five years. Because CBO expects those Iraqi immigrants and refugees to have more job skills than most refugees, we expect they would enroll in federal-benefit programs at lower than normal rates. Based on data from the Department of Health and Human Services, CBO projects that 15-30 percent of Iraqi refugees would use Food Stamps, while 5-10 percent would use Medicaid and SSI. Additionally, CBO projects that 5-10 percent of Iraqi special immigrants would use Food Stamps, and 2-5 percent would use Medicaid and SSI. For those groups, annual benefit rates average \$1,200 for Food Stamps, \$8,200 for Medicaid, and \$6,600 for SSI.

In addition, JCT expects that those immigrants would take advantage of tax benefits for low income taxpayers and taxpayers with dependent children. Based on the expected number of new immigrants, JCT estimates that under these provisions, spending for refundable tax credits would increase by \$39 million over the 2008-2018.

In total, CBO and JCT estimate that subtitle C of title XII would increase federal outlays by \$129 million over the 2008-2013 period and by \$273 million over the 2008-2018 period. (In addition, subtitle C of title XII would affect federal revenues, which are discussed under "Revenues.")

Spending of Reimbursements from Palau. Section 1253 would allow DoD to spend reimbursements from the government of Palau. Under current law, Palau reimburses the United States for the cost of providing military civic action teams and those receipts—about \$250,000 annually—are deposited into the U.S. Treasury. CBO estimates that enacting section 1213 would cost less than \$500,000 in every year; costs over the 2008-2013 and 2008-2018 periods would total \$1 million and \$2 million, respectively.

Other Sections That Affect Direct Spending. CBO estimates that the following provisions would decrease net direct spending by \$33 million in 2008 and increase such spending by \$411 million over the 2008-2018 period.

Aviation War-Risk Insurance. The Federal Aviation Administration (FAA) offers a commercial aviation insurance program that, for a premium, insures air carriers and certain manufacturers against liabilities arising from losses caused by terrorist events. The FAA also offers a nonpremium insurance program to air carriers that participate in the Civil Reserve Air Fleet (CRAF).

Prior to enactment of the Consolidated Appropriations Act, 2008 (Public Law 110-161), the FAA's authority to operate both of those programs was scheduled to expire on March 30, 2008. Public Law 110-161 extended the agency's authority to offer insurance, under certain circumstances, through December 31, 2008. Section 378 of H.R. 4986 would further extend that authority for four additional years—through December 31, 2013.

CBO estimates that extending the FAA's authority to offer commercial aviation insurance through 2013 would reduce net direct spending by \$360 million over the 2008-2013 period and increase it by \$480 million over the 2008-2018 period. Those long-term net costs would result because CBO assumes that the FAA would continue to offer commercial aviation insurance at rates that would not fully offset the government's cost of providing that coverage. We further estimate that extending the CRAF program through 2013 would have no significant budgetary impact.

Reimbursements for Fire Protection Services. Section 1080 would permit DoD to retain reimbursements it receives from federal and local entities when it provides fire protection services pursuant to reciprocal fire protection agreements. Currently, such reimbursements are required to be deposited in the Treasury as miscellaneous receipts. Based on information from the U.S. Forest Service regarding reimbursements it provides to DoD pursuant to such agreements, CBO estimates that implementing this provision would increase direct spending by about \$66 million over the 2008-2018 period.

Flexibility in Paying Annuities. Section 1106 would allow some civil service annuitants re-employed under the National Security Personnel System to have their annuities periodically recalculated to take account of their additional years of employment. Based on information from DoD, CBO estimates that under this provision about 3,500 re-employed annuitants would have their annuities recalculated through 2018, which would increase spending for annuities by \$20 million over that period.

Sale of Defense Stockpile Assets. Enacting H.R. 4986 would lead to increased receipts from the sale of chromium, beryllium, and tungsten from the National Defense Stockpile. Those additional sales would reduce direct spending by \$160 million over the 2008-2012 period. No additional receipts would be achieved after 2012.

Section 1412 would increase by \$110 million the target contained in the National Defense Authorization Act for Fiscal Year 2000 (Public Law 106-65; later revised by Public Laws 108-136 and 109-163) for sales of chromium and beryllium. CBO estimates that the additional sales would begin in 2010 and that there would be sufficient quantities of those materials in the stockpile to complete those additional sales by 2012. Thus, CBO estimates that this section would increase receipts from stockpile sales by \$110 million over the 2010-2012 period.

Section 1412 also would increase by \$50 million the target contained in the National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261; later revised by Public Laws 106-398, 107-107, 108-375, 109-163, and 109-364) for sales of tungsten, and it would extend those sales through fiscal year 2015. CBO estimates that there would be sufficient quantities of tungsten in the stockpile to achieve additional receipts of \$40 million in 2008 and \$50 million over the 2008-2012 period.

Energy Employees Occupational Illness Compensation Program (EEOICP) Ombudsman Sunset Date. Section 3116 would extend the sunset date for the Office of the Ombudsman for the EEOICP for five years. The expenses of the ombudsman's office are paid out of an indefinite appropriation available to the Department of Labor for the administrative costs associated with Part E of the EEOICP. Expenses for the ombudsman's office were approximately \$1 million in 2007. Based upon this information, CBO estimates that implementing this section would increase direct spending by approximately \$5 million over the 2008-2012 period.

Pilot Program for Aerial Refueling Services. Section 1081 would require the Air Force to conduct a pilot program to assess the feasibility of acquiring aerial refueling capability through a commercial fee-for-service contract.

Because federal agencies are the only entities to refuel aircraft in flight, the full cost of the equipment needed to provide those services would be borne by the federal government. Currently, there are few privately owned aircraft that are equipped to dispense fuel to other aircraft in flight, thus the Air Force may need to provide a long-term commitment to potential suppliers of such services to encourage them to purchase the aircraft and equipment needed to provide such services. Those commitments could take the form of multiyear contracts to purchase aerial refueling services over a period long enough to allow the contractor to recover its capital costs.

At this time, CBO does not know how those fee-for-service contracts would be written. However, when entering multiyear contracts, DoD frequently records only obligations for the payments due in the first year of the contracts, even though the government's contractual commitment exceeds that amount. If the Air Force follows that practice in conducting this pilot program, then the requirements of section 1081 would constitute contract authority, a form of budget authority. (CBO believes that practice is inconsistent with governmentwide accounting principles and that the full cost of such contracts should be recorded in the budget when they are signed.) CBO may score budget authority against future expansions or extensions of the pilot program on the basis of the Air Force's implementation of the requirements of this section.

Revenues

Subtitle C of title XII would increase the number of Iraqis who could enter the United States as refugees or special immigrants. Based on the expected number of new immigrants, JCT estimates that title XII, subtitle C would result in a decline in on-budget revenues of \$32 million over the 2008 to 2018 period, including a \$7 million increase in receipts and a \$39 million increase in outlays for refundable credits. (The \$39 million increase in outlays would be direct spending. See the above discussion under "Direct Spending.") JCT estimates that off-budget revenues would increase by \$258 million for the same period, for a combined total increase in revenues of \$265 million. The off-budget revenues result from additional social security tax payments.

For their estimate, JCT assumes that the newly arriving Iraqis would have similar employment and wages as existing illegal immigrants. However, JCT expects that, unlike many current workers who are illegal immigrants, the Iraqis workers would generally be subject to employment and income tax withholding, and would file income tax returns. As a result, the revenue effects associated with the act reflect, in part, JCT's assumption that those Iraqis who work would displace some currently working illegal immigrants who have

federal income taxes withheld but do not file an income tax return, as well as other working illegal immigrants who do not have employment taxes withheld.

TABLE 3. ESTIMATED REVENUE EFFECTS OF H.R. 4986

	By Fiscal Year, in Millions of Dollars ^{a,b}												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2008-2013	2008-2018
On-budget	2	1	-6	-8	-4	-4	0	2	0	11	10	-17	7
Off-budget	<u>3</u>	<u>11</u>	<u>18</u>	<u>25</u>	<u>31</u>	<u>31</u>	<u>31</u>	<u>30</u>	<u>25</u>	<u>27</u>	<u>26</u>	<u>118</u>	<u>258</u>
Net Changes in Revenues	5	12	12	17	27	27	31	32	25	38	36	101	265

SOURCE: Joint Committee on Taxation.

- a. For purposes of enforcing the fiscal year 2008 budget resolution, the revenue totals for 2008-2012 and 2008-2017 are \$74 million and \$229 million, respectively. Of those amounts, the on-budget revenue totals for 2008-2012 and 2008-2017 are -\$13 million and -\$3 million, and the off-budget totals are \$87 million and \$232 million.
- b. Ten-year costs shown above and in the text may differ slightly from the sum of the annual costs listed because of rounding.

PREVIOUS CBO ESTIMATES

On May 14, 2007, CBO transmitted a cost estimate for H.R. 1585, the National Defense Authorization Act for Fiscal Year 2008, as reported by the House Committee on Armed Services on May 11, 2007. Several weeks later, on June 12, 2007, CBO transmitted a cost estimate for H.R. 1585 as passed by the House of Representatives on May 17, 2007. CBO estimated that both of those versions of H.R. 1585 would have increased direct spending by \$150 million in 2008 but would have had no net effect on such spending over the 2008-2017 period.

On June 21, 2007, CBO transmitted a cost estimate for S. 1547, the National Defense Authorization Act for Fiscal year 2008, as reported by the Senate Committee on Armed Services on June 5, 2007. CBO estimated that S. 1547 would have decreased direct spending by \$309 million in 2008 and by \$2.1 billion over the 2008-2017 period.

Many provisions in H.R. 4986 are identical to or very similar to provisions in those earlier versions of the legislation. However, H.R. 4986 as cleared by the Congress, contains several provisions that were not in either of the earlier versions. In particular, H.R. 4986 contains

several provisions that would increase military retirement and disability benefits, as well as education benefits for reservists. CBO has also updated its cost estimates of several provisions that were in the earlier versions of the legislation to reflect a later enactment date than previously assumed. Also, the cost of extending aviation war risk insurance has been updated to reflect recently enacted legislation.

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