CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 25, 2011

S. 277
Caring for Camp Lejeune Veterans Act of 2011

As ordered reported by the Senate Committee on Veterans' Affairs on June 29, 2011

SUMMARY

S. 277 would authorize a new federal health benefit for former military members who were stationed at Camp Lejeune, North Carolina, and their dependents whose health was affected by exposure to environmental contaminants while residing on the base. The bill also would consolidate the Department of Defense (DoD) Commissary and Exchange Systems. CBO estimates that implementing this bill would, in total, reduce discretionary costs by about $2 billion over the 2012-2016 period, assuming appropriation actions consistent with the bill.

Enacting S. 277 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

S. 277 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 277 is shown in the following table. The costs of this legislation fall within budget functions 050 (national defense) and 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars					
	2012	2013	2014	2015	2016	2012-2016
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Camp Lejeune Health Benefits						
Estimated Authorization Level	0	32	101	155	193	481
Estimated Outlays	0	29	93	149	188	459
Department of Defense Retail Consolidation						
Estimated Authorization Level	0	0	-400	-1,000	-1,700	-3,100
Estimated Outlays	0	0	-300	-800	-1,400	-2,500
Total Changes						
Estimated Authorization Level	0	32	-299	-845	-1,507	-2,619
Estimated Outlays	0	29	-207	-651	-1,212	-2,041

BASIS OF ESTIMATE

For this estimate, CBO assumes the legislation will be enacted near the start of fiscal year 2012, that the authorized amounts will be provided near the start of fiscal year 2013 and each subsequent fiscal year, and that outlays will follow historical patterns for similar and existing programs.

Camp Lejeune Health Benefits

Effective October 1, 2012, section 2 would authorize creation of a new federal health benefit for former military members who were stationed at Camp Lejeune, North Carolina, and their dependents whose health was affected by environmental contamination. The drinking water at Camp Lejeune was contaminated from 1957 through 1987, allegedly causing higher incidence rates of some cancers (for example, esophageal, breast, and kidney), birth defects, and other physical ailments.

Based on information from the Department of Defense, CBO estimates that 650,000 people were stationed at Camp Lejeune during the period of contamination. However, CBO expects that less than 10 percent of those individuals would eventually be newly enrolled to receive certain health care benefits provided by the Department of Veterans Affairs. That estimate is based on take-up rates for two other government programs that provide compensation for occupational illnesses: the Radiation Exposure Compensation Program and the Energy Employees Occupational Illness Compensation Program (EEOICP). The number of people approved for benefits would be significantly smaller than the population potentially exposed because many of those potential beneficiaries either would not have adequate proof of an ailment connected to the contamination (for dependents), would not be able to be located, or would have died.

Of those who enroll for health benefits in the first five years, CBO estimates that most—about 42,000—would be former military members, while the rest—about 3,000—would be spouses and children of former servicemembers. We expect that use of this program would phase in over time, with about 9,000 individuals enrolling in the first year. CBO uses disease prevalence rates from the Surveillance Epidemiology and End Results Cancer Statistics Review to estimate roughly how many spouses and children may have diseases that would make them eligible for health benefits.

Based on the cost of health benefits provided to veterans exposed to other environmental contamination, CBO estimates that the cost of health care for each eligible veteran would be about $2,700 in 2013. For spouses and children, CBO assumes higher health care costs similar to those for health benefits provided by EEOICP. CBO estimates that the annual cost of the new health benefit for dependents would be about $10,700 in 2013 for each approved claim. Costs for dependents would be higher than the average annual medical costs for veterans because the bill specifies that spouses and children must be diagnosed with diseases and conditions directly related to the exposures in question. CBO estimates that per capita costs would increase by about 6 percent each year, based on national per capita health expenditure projections published by the Centers for Medicare and Medicaid Services.

Based on costs for existing programs, CBO estimates administrative costs to process the new health claims would amount to $43 million over the 2013-2016 period. CBO assumes a gradual implementation rate to reflect the time necessary to establish regulations.

In total, CBO estimates that providing health benefits to veterans and their family members previously stationed at Camp Lejeune would cost $459 million over the 2013- 2016 period, assuming appropriation of the necessary amounts.

Department of Defense Retail Consolidation

Section 3 would require DoD to combine their retail stores into a single system, beginning in fiscal year 2013. Currently DoD operates a network of grocery stores (commissaries) that serves all branches of the armed forces and three separate chains of general retail stores (exchanges). One system of exchanges serves the Army and Air Force, a second serves the Navy, and a third serves the Marine Corps. The bill would combine all those entities into one system, and require the consolidated system to be self-sustaining (that is, operate without appropriations) starting in fiscal year 2016.

Currently the commissary system relies on appropriated funds to pay its operating costs. In fiscal year 2011, the commissary system has received appropriations of approximately $1.3 billion to pay for the salaries of employees, the transportation of its inventory, and other costs associated with operating and maintaining approximately 250 stores. The commissary's inventory is financed on a revolving basis, using the cash generated from sales of that inventory.

The three exchange systems are less reliant on appropriations. Although certain expenses of the exchanges are paid for through appropriations—including the transportation of certain items and the salaries of military personnel employed by the exchanges—the majority of the exchanges' costs are funded from sales revenues generated by the exchanges. Based on information from DoD, CBO estimates that appropriations provided to DoD cover approximately $200 million of exchange-related costs annually.

Overall, CBO estimates that DoD's retail system currently receives approximately $1.5 billion in appropriated funds each year, and, including the effects of inflation, those systems could expect to receive approximately $1.7 billion in 2016. For the retail system to operate without appropriated funds, CBO anticipates that two adjustments would be necessary: consolidating headquarters and certain operations and an increase in sales revenue. CBO estimates that the efficiencies that would result from consolidating operations would produce approximately 20 percent of the saving necessary for the combined system to achieve self-sufficiency.

The remaining portion of the funds to operate a self-sufficient system would need to be generated through increasing prices in the combined system. The commissary and exchange systems currently offer their patrons savings of approximately 30 percent and 20 percent, respectively, as compared to retail operations in the private sector. CBO estimates that prices in the combined system would need to rise by approximately 7 percent to generate sufficient revenue to offset the loss of appropriated funds. Assuming that the retail system is fully consolidated by 2015, that such a price increase is phased in gradually over the 2013-2016 period, and that appropriations are in turn reduced over the same period, CBO estimates that implementing section 3 of the bill would yield discretionary savings of $2.5 billion over the 2013-2016 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 277 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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