CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 12, 2000

H.R. 4205
National Defense Authorization Act for Fiscal Year 2001

As ordered reported by the House Committee on Armed Services on May 10, 2000

SUMMARY

H.R. 4205 would authorize appropriations totaling $310 billion for fiscal year 2001 and an estimated $9 billion for 2000 for the military functions of the Department of Defense (DoD) and the Department of Energy. It also would prescribe personnel strengths for each active duty and selected reserve component of the U.S. armed forces. CBO estimates that appropriation of the authorized amounts for 2000 and 2001 would result in additional outlays of $313 billion over the 2000-2005 period. In addition, the bill contains provisions that would raise the costs of discretionary defense programs over the 2002-2005 period by about $8 billion, assuming appropriation of the necessary sums.

The bill contains provisions that would affect direct spending, primarily through demonstration projects in the defense health program. We estimate that the direct spending resulting from provisions of H.R. 4205 would total about $165 million over the 2001-2005 period and $151 million over the 2001-2010 period. The bill would reduce revenues by about $380 million over the 2001-2005 period and $1.1 billion over the 2001-2010 period as the result of a provision that would allow military personnel to participate in the Thrift Savings Plan (TSP). Because it would affect direct spending and receipts, the bill would be subject to pay-as-you-go procedures.

The bill contains private-sector and intergovernmental mandates; however, the costs of those mandates would not exceed the thresholds specified in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4205 is shown in Table 1.

TABLE 1. BUDGETARY IMPACT OF H.R. 4205 AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON ARMED SERVICES

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Defense Programs						
Budget Authority[a]	289,218	0	0	0	0	0
Estimated Outlays	282,839	99,278	36,513	15,296	6,707	3,379
Proposed Changes						
Authorization of Supplemental Appropriations						
Estimated Authorization Level[b]	9,205	0	0	0	0	0
Estimated Outlays[b]	6,953	136	1,470	453	134	28
Authorization of Regular Appropriations						
Authorization Level	0	310,182	0	0	0	0
Estimated Outlays	0	199,797	65,795	24,055	9,210	4,525
Subtotal-Proposed Changes						
Estimated Authorization Level	9,205	310,182	0	0	0	0
Estimated Outlays	6,953	199,933	67,265	24,508	9,344	4,553
Spending Under H.R. 4205 for Defense Programs						
Estimated Authorization Level[a,b]	298,423	310,182	0	0	0	0
Estimated Outlays[b]	289,792	299,211	103,778	39,804	16,051	7,932
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	27	39	83	21	-5
Estimated Outlays	0	27	39	83	21	-5
CHANGES IN REVENUES						
Change in Income Tax Receipts	0	-10	-61	-82	-105	-125

NOTE: Costs of the bill would fall within budget function 050 (national defense), except for certain items noted in the text.

a. The 2000 level is the amount appropriated for programs authorized by the bill.
b. The amounts shown here for the 2000 supplemental are the total amounts in the 2000 Emergency Supplemental Appropriations Act as passed by the House. The outlay estimate includes $4,897 million designated as emergency funding. Excluding emergency funds would lower total outlays in 2001 to $294,314 million.

Authorizations of Appropriations

The bill would authorize specific appropriations totaling $310 billion in 2001 (see Table 2) and such sums as may be necessary for supplemental appropriations in 2000. It would also authorize certain payments, which are due to be made in fiscal year 2001, to be paid instead in 2000. Most of those costs would fall within budget function 050 (national defense). H.R. 4205 would also authorize appropriations of $94 million for the Maritime Administration (function 400) and $70 million for the Armed Forces Retirement Home (function 700).

The estimate assumes that the amounts authorized for 2001 will be appropriated by October 1, 2000, and that the authorization of supplemental appropriations would amount to $9 billion, the amount of funding passed by the House in the 2000 Emergency Supplemental Appropriations Act. (All but $167 million of the supplemental funding is designated as an emergency.) Outlays are estimated based on historical spending patterns.

The bill also contains provisions that would affect various costs, mostly for personnel, that would be covered by the fiscal year 2001 authorization and by authorizations in future years. Table 3 contains estimates of those amounts. In addition to the costs covered by the authorizations in the bill for 2001, these provisions would raise estimated costs by $8 billion over the 2002-2005 period. The following sections describe the provisions identified in Table 3 and provide information about CBO's cost estimates.

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

H.R. 4205 would authorize DoD to enter into new multiyear contracts for three weapons systems: Blackhawk (UH-60L) helicopters, Knighthawk (CH-60S) helicopters, and Bradley fighting vehicles. The Blackhawk and Knighthawk helicopters would be purchased under one contact administered by the Army and covering five years of production beginning in 2002. The contract for the Bradley fighting vehicles would cover three years starting in 2001. H.R. 4205 would also extend the authorization of multiyear procurement of the Arleigh Burke class destroyer by two years through 2005.

TABLE 2. SPECIFIC AUTHORIZATIONS IN THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2001 AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON ARMED SERVICES

	By Fiscal Year, in Millions of Dollars				
Category	2001	2002	2003	2004	2005
Military Personnel					
Authorization Level	75,802	0	0	0	0
Estimated Outlays	70,192	4,017	834	303	76
Operation and Maintenance					
Authorization Level	109,709	0	0	0	0
Estimated Outlays	81,220	20,976	4,101	1,972	703
Procurement					
Authorization Level	62,300	0	0	0	0
Estimated Outlays	14,333	19,883	14,162	5,494	3,222
Research, Development, Test, and Evaluation					
Authorization Level	39,309	0	0	0	0
Estimated Outlays	21,513	14,105	2,599	730	192
Military Construction and Family Housing					
Authorization Level	8,434	0	0	0	0
Estimated Outlays	2,515	3,050	1,687	686	290
Atomic Energy Defense Activities					
Authorization Level	12,888	0	0	0	0
Estimated Outlays	8,646	3,589	654	0	0
Other Accounts					
Authorization Level	1,667	0	0	0	0
Estimated Outlays	1,032	228	138	85	62
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	280	-60	-120	-60	-20
Total					
Authorization Level	310,109	0	0	0	0
Estimated Outlays	199,731	65,788	24,055	9,210	4,525

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN H.R. 4205 AS ORDERED REPORTED (By fiscal year, in millions of dollars)

Category	2001	2002	2003	2004	2005
MULTIYEAR PROCUREMENT					
Blackhawk and Knighthawk	0	-12	-9	-20	-45
Bradley Fighting Vehicle	-8	-29	-42	0	0
Arleigh Burke Destroyer	153	0	0	-192	-93
MILITARY ENDSTRENGTHS					
Department of Defense	-113	-233	-241	-249	-257
Coast Guard Reserve	73	0	0	0	0
Grade Structure	11	22	23	24	25
COMPENSATION AND BENEFITS (DOD)					
Expiring Bonuses and Allowances	358	257	136	105	71
Increases in Special Pays and Bonuses	0	216	204	196	197
Housing Allowances	315	648	952	1,272	1,608
Subsistence Allowances	5	62	114	170	228
Travel and Transportation Allowances	48	49	50	50	51
Involuntary Separation Pay	30	31	32	34	35
Retention Bonus for Critical Skills	12	7	4	4	2
TSP Contributions	1	5	11	18	26
Other Compensation Provisions	9	10	10	10	10
MILITARY HEALTH CARE					
Tricare Pharmacy Benefit	94	320	481	536	595
Tricare Prime Remote	50	52	54	55	57
Copayments Under Tricare Prime	38	39	39	39	40
Reduction of Catastrophic Cap	30	30	31	31	31
Reimbursement for Travel Expenses	15	23	32	33	34
Chiropractic Care	3	10	16	22	29
Patient Safety	20	10	10	5	5
Other Health Care Provisions	7	5	11	6	5
OTHER PROVISIONS					
Commissary Surcharge	90	90	90	90	90
Acquisition Workforce Reductions	-7	-63	-65	-68	-70
Tuition Reimbursement (Civilian)	0	6	6	6	6
BILL TOTAL					
Estimated Authorization Level	1,234	1,555	1,949	2,177	2,680

NOTES: For every item in this table except one, the 2001 impacts are included in the amounts specifically authorized to be appropriated in the bill. Those amounts are shown in Table 2. Only the authorization of endstrength for the Coast Guard Reserve is additive to the amounts in Table 2.

CBO estimates that savings from buying the Blackhawk and Knighthawk helicopters under a multiyear contract would total $86 million or an average of about $22 million a year over the 2002-2005 period. Funding requirements would total just under $2.2 billion instead of the almost $2.3 billion needed under annual contracts. Similarly, CBO estimates that the Army would save $79 million, or about $26 million a year, through 2003 under a multiyear contract for Bradley fighting vehicles, which would cost about $0.9 billion over that period under current law. CBO estimates that extending the Arleigh Burke destroyer multiyear contract would save the Navy an additional $132 million between 2001 and 2005. Those estimates are based on actual savings from multiyear procurement of similar systems and the assumption that annual production will be at the levels planned by the Administration for each of these programs.

Endstrength. The bill would authorize active and reserve endstrengths for 2001 and would lower the minimum endstrength authorization in permanent law. The authorized endstrengths for active-duty personnel and personnel in the selected reserve would total about 1,382,000 and 866,000, respectively. The bill would specifically authorize appropriations of $75.8 billion for military pay and allowances in 2001. The reduction in authorized personnel would decrease costs for salaries and other expenses by $113 million in the first year and about $250 million annually in subsequent years, compared to the authorized strengths for 2000.

Also, the bill would authorize an endstrength of 8,000 in 2001 for the Coast Guard Reserve. This authorization would cost about $73 million and would fall under budget function 400, transportation.

Section 414 would change the grade structure of active duty personnel in support of the reserves. This change would not increase the overall strength, but would result in more promotions. The provision would cost $11 million in 2001 and about $25 million a year in subsequent years.

Compensation and Benefits. H.R. 4205 contains several provisions that would affect military compensation and benefits.

Pay Raises. Section 601 would raise basic pay by 3.7 percent at a total cost of about $1.5 billion in 2001. Because this pay raise would be the same as the one projected under current law and assumed in its baseline projections, CBO estimates no incremental costs.

Expiring Bonuses and Allowances. Several sections would extend for one year DoD's authority to pay certain bonuses and allowances to current personnel. Under current law, these authorities are scheduled to expire in December 2000, or three months into fiscal year

2001. The bill would extend most of those authorities through December 2001. CBO estimates that the cost of these extensions would be as follows:

- Payment of reenlistment bonuses for active duty personnel would cost $193 million in 2001 and $111 million in 2002; enlistment bonuses for active duty personnel would cost $65 million in 2001 and $29 million in 2002. (The bill would extend the authority to pay enlistment bonuses only through September 2001);

- Various bonuses for the Selected and Ready Reserve would cost $48 million in 2001 and $55 million in 2002;

- Special payments for aviators and nuclear-qualified personnel would cost $44 million in 2001 and $47 million in 2002; and

- Authorities to make special payments to nurse officer candidates, registered nurses, and nurse anesthetists would cost $8 million in 2001 and $3 million in 2002.

- Extension of other authorities, including temporary early retirement authority, special separation benefit, voluntary separation incentive, and certain other contingent benefits would cost $12 million in 2002. (The bill would extend the authorities for three months past their current expiration date of October 1, 2001.)

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

Increases in Special Pays and Bonuses. Sections 616 through 618 would revise certain eligibility criteria and pay for personnel with special skills. Those provisions would raise maximum pay rates for servicemembers performing career sea duty and certain enlisted personnel performing special duty, including recruiters. In addition, the bill would establish a common enlistment bonus among the services for certain personnel on active duty, by ending the separate authority for the Army and by revising the existing department-wide enlistment bonus. Under section 618, the minimum enlistment period for enlistment bonuses would decrease from four to two years and the critical skill requirement would be eliminated. Authority to pay the enlistment bonuses would expire December 31, 2001. These changes would have no cost in 2001 and cost $216 million in 2002, when the changes would become effective. Costs in subsequent years would total about $200 million annually.

Housing Allowances. Several sections would increase housing allowances for servicemembers within the United States. The combination of these provisions would cost $315 million in 2001 and $4.8 billion over the 2001-2005 period.

Section 604 would revise the calculation of Basic Allowance for Housing (BAH) within the United States by no longer requiring that housing allowances be limited to 85 percent of the cost of adequate housing in the United States. DoD plans to gradually increase BAH over 5 years to reach 100 percent of that cost by 2005. Based on that plan, CBO estimates that higher BAH payments would cost $274 million in 2001 and $4.4 billion over the 2001-2005 period.

Section 605 would revise the basis of BAH for enlisted members with dependents in pay grades E-1 through E-4. BAH rates for enlisted members in these grades are currently based on the cost of a two-bedroom apartment. Section 605 would increase the minimum housing standard to the amount halfway between the current standard and the cost of a two-bedroom townhouse. This change would be effective July 1, 2001. CBO estimates that increasing the minimum housing standard for these enlisted members would cost $10 million in 2001 and $188 million over the 2001-2005 period.

Section 606 would allow the Secretary of Defense to pay BAH to certain enlisted members without dependents in pay grade E-4, who are assigned to sea duty and who sleep aboard ship when it is in port and quarters on base are unavailable. Based on the Navy's plan to implement this authority, and an effective date of October 1, 2001, CBO estimates that paying BAH to these enlisted members would cost $45 million starting in 2002 and total $186 million over the 2002-2005 period.

Section 610 would earmark $30 million of the amount authorized to be appropriated in 2001 for military pay and allowances to further increase BAH within the United States.

Subsistence Allowances. Sections 602, 603, and 609 would increase subsistence allowances for certain active-duty servicemembers and officers prior to being commissioned. CBO estimates that enactment of these provisions would cost $5 million in 2001 and $579 million over the 2001-2005 period.

Compared to current law, section 602 would allow a speedier elimination of the gap between the Basic Allowance for Subsistence (BAS) paid to enlisted members who eat off-base and the value of subsistence provided to enlisted members who eat in DoD dining facilities. Current law limits the annual growth of regular BAS to 1 percent and allows for a partial allowance to be paid to those receiving an in-kind benefit. Because the partial allowance grows at a faster rate, the gap between the total benefits would eventually close. CBO estimates that the cost to equalize payments to both groups in 2001 and eliminate the

1 percent growth cap would be $35 million in 2002 and would grow to $166 million by 2005.

Section 603 would authorize the Secretary of Defense to provide a new allowance, through fiscal year 2006, for servicemembers who meet certain eligibility criteria of the Food Stamp program. CBO estimates that, if the Secretary chooses to offer it, this allowance would increase personnel costs by $5 million in fiscal year 2001 and by a total of $59 million over the 2001-2005 period.

To receive the allowance, a servicemember would apply to DoD, providing proof that his or her household income meets the gross income test for the Food Stamp program. The value of the allowance would be the amount needed to make the household ineligible for food stamps, up to a maximum of $500 per month. In determining eligibility and the size of the allowance, DoD would count the value of all housing assistance as income, even if that assistance is delivered in-kind.

Under current law, CBO estimates that about 5,500 servicemembers will participate in the Food Stamp program in 2001. This estimate is based on a recent DoD survey of servicemembers receiving food stamps, adjusted for projected pay raises. Not all of these Food Stamp participants would be eligible for the new allowance when the value of in-kind housing is counted as income. Using data on the distribution of servicemembers by pay grade and family size, CBO expects that about 3,300 current Food Stamp recipients would be eligible for the allowance and that another 800 servicemembers would apply, at an average household cost of $315 per month. CBO assumes that the allowance would be available beginning April 1, 2001, and participation would phase in over the remainder of the fiscal year. Once the allowance is fully phased in, the costs are projected to decrease each year as fewer servicemembers would be eligible for the allowance. The number of eligible members would decline because pay rates are projected to rise faster than the poverty threshold used to determine Food Stamp eligibility.

If this allowance is instituted, it would make an estimated 1,100 servicemembers ineligible for food stamps and reduce costs of the Food Stamp program by an estimated $22 million over the 2001-2005 period. Because the decision to provide the allowance would depend, in part, on future appropriation action, CBO has not shown direct spending savings for this provision.

Section 609 would increase the subsistence allowance paid to members in precommissioning programs, effective October 1, 2001. These members currently receive a monthly allowance of $200. Section 609 would establish a minimum monthly rate of $250 and allow the Secretary of Defense to pay as much as $600. CBO estimates that this increase would cost

$12 million in 2002 and $50 million by 2005, when the allowance would approach the $600 limit.

Travel and Transportation Allowances. Section 632 would allow the Secretary of Defense to reimburse members who change duty stations for the fees of mandatory pet quarantine, but limit the compensation amount to $275 per change. CBO estimates that these payments would cost $1 million a year. Section 633 would increase dislocation allowances for enlisted members with dependents in pay grades E-1 through E-4 by requiring that the Secretary of Defense not differentiate between grades E-1 through E-5 when determining dislocation allowances for enlisted members with dependents. CBO estimates that paying the resulting higher dislocation allowances would cost $6 million in 2001 and $33 million over the 2001-2005 period. Under section 634, the Secretary could reimburse recruiters and other military and civilian employees assigned to certain duties for parking expenses. CBO estimates that that the cost of paying these parking fees would be $41 million in 2001 and $210 million over the 2001-2005 period.

Involuntary Separation Pay. Section 517 would reclassify as involuntary the discharges of reserve officers who are twice passed over for promotion. This would allow these members to receive involuntary separation pay. Based on information from DoD, CBO estimates that approximately 550 reserve officers a year would become eligible for separation pay under this provision. CBO estimates that enactment of section 517 would cost $30 million in 2001 and $162 million over the 2001-2005 period.

New Retention Bonus for Critical Skills. Section 619 would authorize a new retention bonus for military personnel with critical skills who extend their period of duty by at least one additional year. This new bonus could be paid in addition to the current selected reenlistment bonus available to certain enlisted members and certain other compensation provided to officers. The authority to offer this bonus would expire on December 31, 2001. CBO estimates that this new retention bonus would cost $12 million in 2001. Smaller costs would be incurred in subsequent years because payments are made in installments.

TSP Contributions. Under section 651, the Secretary of Defense could make contributions to the Thrift Savings Plan (TSP) for military personnel in designated occupational specialties who commit to serve on active duty in that specialty for a period of six years. Based on DoD's use of similar authority to award bonuses for enlistment or reenlistment, CBO estimates that the discretionary costs for the agency contributions to TSP would total $1 million in 2001 and $26 million by 2005, based on an effective date of July 15, 2001.

Other Compensation Provisions. Section 641 would raise reserve retirement pay by increasing the number of days that can be counted in the retirement pay calculation. The military retirement system is financed in part by an annual payment from appropriated funds to the military retirement trust fund, based on an estimate of the system's accruing liabilities. If the bill is enacted, the yearly contribution to the military retirement trust fund (a DoD outlay in budget function 050) would increase to reflect the added liability from the increase in retirement pay. The payment into the trust fund is discretionary because it depends on whether and how much funding is made available each year for military personnel. Using information from DoD, CBO estimates that implementing this bill would increase such payments by $4 million in 2001, $23 million over the 2001-2005 period, and $50 million over the 2001-2010 period, subject to appropriation of the necessary amounts. This provision would also increase outlays from the retirement trust fund. Those costs are discussed under the heading of direct spending.

CBO estimates that increases in allowances paid to officers for purchasing uniforms and equipment would cost $5 million a year under section 608.

Military Health Care. Title VII contains several provisions that would affect DoD health care and benefits. Tricare is the name of DoD's three-part health care program: Tricare Prime is a managed care option; Tricare Extra is a preferred provider program; and Tricare Standard is a fee-for-service program of other participating providers.

Tricare Pharmacy Benefit. Section 721 would allow military beneficiaries age 65 and over to use DoD's National Mail Order Pharmacy (NMOP) and retail networks, and would allow Tricare to pay 75 percent of all pharmacy claims after each beneficiary meets an annual $150 deductible. CBO estimates that this provision would affect about 360,000 individuals who do not currently use DoD for pharmacy benefits, and about 450,000 beneficiaries who are eligible for the NMOP and retail networks but do not have access to the Tricare insurance for reimbursement. Because the program would not take effect until April 1, 2001, the cost in fiscal year 2001 is comparatively low. CBO estimates that providing the Tricare pharmacy benefit to seniors would cost $94 million in 2001 and a little more than $2 billion over the 2001-2005 period.

Tricare Prime Remote. Under current law, members of the armed forces on active duty who live far enough away from a military treatment facility (MTF) are eligible to participate in what DoD calls Tricare Prime Remote. This program allows such personnel to receive care without facing the co-insurance and deductibles that they would otherwise face if they used Tricare Standard. To implement the program, DoD either establishes a network of providers for the active-duty personnel, or it waives the copayments and deductibles when claims are filed under Tricare Standard. In many cases, where the cost of setting up networks is more costly than the cost of waiving such payments, DoD just waives the deductibles and co-insurance.

Section 711 would grant the Tricare Prime Remote benefit to dependents of members of the armed forces on active duty and to other members of the uniformed services (e.g., uniformed members of the Public Health Service) and their dependents. Using data from DoD, CBO estimates that roughly 71,000 people in remote locations already use Tricare Standard or Extra. DoD's only additional cost for those beneficiaries would come from waiving the co-insurance and deductibles. CBO expects that almost 4,000 people who do not currently use Tricare insurance would enroll in Tricare Prime Remote under the bill because of the lower out-of-pocket costs. Those beneficiaries would cost DoD significantly more per person. CBO estimates that establishing Tricare Prime Remote for the 75,000 new beneficiaries would cost $50 million in 2001 and $268 million over the 2001-2005 period.

Copayments Under Tricare Prime. Under current law, beneficiaries who use MTFs do not need to make any copayments, but beneficiaries enrolled in Tricare Prime, the military health care system's managed care option, are required to make copayments whenever they visit a civilian doctor. In 1999, dependents of active-duty personnel who are enrolled in Tricare Prime saw civilian doctors about 2.4 million times. Section 712 would eliminate the requirement for those copayments. (Beneficiaries who use Tricare Standard or Extra would still have to pay the applicable co-insurance amounts for each civilian visit.)

CBO estimates that this change would cost $38 million in 2001 and $195 million over the 2001-2005 period. Reimbursing Tricare insurance providers for lost revenue would compose about 70 percent of DoD's cost. The remaining 30 percent of the estimated cost results because the lack of cost sharing would likely increase the number of visits to civilian doctors.

Reduction of Catastrophic Cap. Under current law, beneficiaries who use Tricare Standard or Extra must pay deductibles and co-insurance up to a cap of $7,500 each year. DoD is responsible for any costs over $7,500. Section 718 would lower this cap from $7,500 to $3,000 per family. CBO estimates that lowering the cap would cost $30 million in 2001 and $153 million over the 2001-2005 period. Using data from the Medical Expense Panel Survey, conducted by the Department of Health and Human Services, CBO estimates that about 3 percent of the population has out-of-pocket costs greater than $3,000. Applying this to the DoD population that uses Tricare Standard or Extra yields roughly 14,000 people that would be affected by this provision. Assuming a uniform distribution of expenditures across the range from the new cap ($3,000) to the existing cap ($7,500), CBO estimates that DoD's costs would rise by an average of just under $2,250 per person.

Reimbursement for Travel Expenses. Under current law, when somebody using the military health system is referred to a new doctor or hospital, the costs of traveling to the new location are paid by the individual. Section 717 would require the Secretary of Defense to reimburse reasonable travel expenses for anybody who had to travel more than 100 miles because of a medical referral. CBO estimates that this provision would apply about 50,000 times each year and that in about one-third of those cases, additional expenses would be incurred for individuals who must accompany the patient. CBO also expects that reimbursements would average about $650 per occurrence, although those costs would rise with inflation. CBO estimates that implementing this proposal would cost $15 million in 2001 and $137 million over the 2001-2005 period.

Chiropractic Care. Section 737 would require DoD to continue providing chiropractic care in 2001 at MTFs where such care is currently provided. The bill would require a five-year phase-in period beginning in 2002 for DoD to provide chiropractic care to all members of the uniformed services. The costs are initially low because of the phase-in period. CBO estimates that the provision would cost $3 million in 2001 and $80 million over the 2001-2005 period.

Patient Safety. Section 733 would require DoD to set up a centralized process for tracking and reporting mistakes in the provision of health care that endangers patient safety. Simple reporting is part of DoD's current effort to improve services, but more complex reporting would likely require substantial investments in information technology. Based on information from DoD, CBO estimates that this provision would cost the department about $50 million over the 2001-2005 period, primarily for the purchase of computer equipment and software support.

Other Health Care Provisions. Title VII also contains several proposals that would cost relatively little over the 2001-2005 period, including some temporary authorities and demonstration projects. CBO estimates that implementing all of these additional health care provisions would cost $7 million in 2001 and $34 million over the 2001-2005 period.

The Congress authorized a demonstration program, called Tricare Senior Supplement, at two sites during a period ending December 2002 where Tricare acts as second-payer to Medicare for those beneficiaries who have enrolled in the program. Enrollment for the demonstration program began in March of 2000. Enrollees must pay a fee and are no longer eligible to use MTFs. Section 724 would extend the demonstration program through the end of calendar year 2003. CBO estimates that this provision would cost $5 million over the 2003-2004 period. Those costs would be discretionary, but extending this demonstration program would also raise Medicare costs because better insurance tends to increase the use of health care. CBO estimates that the Medicare costs of Tricare Senior Supplement would be about $1 million over the 2003-2004 period.

Other health care provisions that would have discretionary budgetary effects are as follows:

- Section 715 would prohibit Tricare insurers from requiring prior authorization for specialty medical care if the provider of that specialty care is part of the

Tricare network. CBO estimates that this provision would cost $5 million a year.

- Section 701 would extend for two years the authority to employ physicians on a contract basis under certain conditions, including at entrance processing stations. CBO estimates that this provision would save $6 million over the two years.

- Section 702 would allow all recipients of the Medal of Honor and their dependents to have access to the military health system and would cost less than $500,000 a year.

- Section 703 would allow DoD to pay for domiciliary and custodial care for certain Medicare-eligible beneficiaries. CBO estimates that the cost of this proposal would be less than $500,000 a year.

- Section 704 would authorize a two-year demonstration program allowing all DoD beneficiaries to use mental health facilities without the need for prior authorization and supervision. CBO estimates that this would cost $6 million over the two years.

- Section 705 would authorize a two-year teleradiology demonstration project. CBO estimates the cost would be $4 million, assuming that the sites require new equipment.

- Section 720 would allow beneficiaries enrolled in the Tricare retiree dental program to withdraw under special circumstances. CBO estimates that this would cost less than $500,000 a year.

Commissary Surcharge. Subtitle C of title III would make several changes to laws governing DoD's commissaries, and CBO estimates that their combined cost would be about $90 million a year. The commissary system is supported through a mix of appropriated and nonappropriated funding. One source of nonappropriated funds, a surcharge on grocery bills, funds a combination of operating expenses and construction costs. The bill would limit DoD to using the collections from the surcharge for only construction or improvement of commissary stores. Funding from that source that now goes for other purposes would have to be made up with discretionary appropriations. CBO estimates those costs to be about $90 million a year, based on information from DoD.

Reductions in Defense Acquisition Workforce. The bill would limit the size of the acquisition workforce by requiring a reduction of at least 13,000 military and civilian personnel during fiscal year 2001. Because the total number of military personnel is determined by endstrength requirements, CBO assumes that the provision would lead to their transfer to other activities rather than separation from the services. Separations of civilian personnel, who comprise about 80 percent of the acquisition workforce, would account for the remaining reductions. Because these civilian reductions would exceed those expected under current law, CBO estimates savings of $7 million in 2001, $63 million in 2002, and similar amounts in subsequent years. Savings would be relatively small during the first year because the cost of separation payments would offset most of the initial savings in salaries.

Tuition Reimbursement for Civilians. Section 1103 would extend for five years a program to reimburse certain civilians in the acquisition workforce for tuition expenses. Based on recent funding levels for that program, CBO estimates that section 1103 would cost about $6 million a year starting in 2002.

Military Housing Privatization Initiative (MHPI). Section 2803 would extend from 2001 to 2006 special authorities to finance the construction and renovation of military family housing. It would authorize DoD to continue to use direct loans, loan guarantees, long-term leases, rental guarantees, barter, direct government investment, and other financial arrangements to encourage private-sector participation in building military housing. Funding for those activities is contained in the Family Housing Improvement Fund and would consist of direct appropriations to the fund, transfers from other accounts, receipts from property sales and rents, returns on any capital, and other income from operations or transactions connected with the program. The amounts in the fund would be available to acquire housing using the various techniques mentioned above, but the total value of budget authority for all contracts and investments undertaken would be limited to $1 billion.

The bill would not explicitly authorize appropriations for the fund, and based on how the Office of Management and Budget (OMB) has treated recent use of the authority, CBO does not estimate any budgetary impact from extending the authorities. However, CBO believes that OMB's current accounting for MHPI initiatives is at odds with government-wide standards for recording obligations and outlays. Those standards call for different treatments depending on the character of the transaction. The OMB accounting treats certain initiatives primarily as matters of credit reform that have relatively little cost in terms of recorded obligations and outlays. In contrast, CBO considers those initiatives as having the characteristics of lease-purchases, which call for recording higher levels of obligations and outlays. The budgetary effect of the Administration's approach (compared to CBO's) is to allow DoD to obligate significantly more federal resources than the $1 billion allocated for such projects.

Government-wide Accounting Principles. Some of the options available for use of the Family Housing Improvement Fund involve up-front commitments of government resources that would be spent over a long period of time. According to standard principles of federal accounting, obligations of the fund should reflect the full amount of the financial liability incurred when the government makes such a commitment. In the case of a long-term capital lease or rental guarantee, for example, obligations should equal the total amount of lease or rental payments over the life of the contract, and appropriations to cover the full amount of such obligations should be available before entering into the lease or guarantee. Some commitments could take the form of lease-purchases, which would require the recording of both obligations and outlays up front. For a direct loan or loan guarantee, obligations should equal the estimated present value of federal transactions with the public, excluding receipts from other federal budget accounts that depend on the availability of future appropriations.

Actual Accounting for Current DoD Projects. To date, DoD has signed contracts for four projects and will soon finalize 12 others. The common thread among the projects so far is that regular appropriations directly finance only a small portion of the construction costs; most costs initially are paid by developers, who borrow funds from private markets. The developers will repay the loans from the government and the private sector using rent received from servicemembers who pay their housing costs with their allowances, which are provided as part of appropriations for military personnel. If rents exceed the servicemembers' housing allowances, DoD can make up the difference. The four projects underway are as follows:

- Lackland Air Force Base (AFB), Texas: In exchange for the construction of 420 housing units, the Air Force provided the contractor with a long-term lease of federal land, a direct loan of $11 million, and a guarantee of a private-sector loan ($30 million) against base closure, downsizing, and substantial redeployment of units based at Lackland. The Administration recorded an obligation of $6 million for the transaction.

- Fort Carson, Colorado: For construction of 840 units and renovation of 1,800 others, the Army provided a long-term lease of federal land, title to existing housing, and a $220 million loan guarantee against base closure, downsizing, and substantial redeployment. The Administration recorded an obligation of $10 million for the transaction.

- Naval Station Everett, Washington: For construction of 185 units and a share of proceeds and equity, the Navy provided an equity investment of $6 million and funds the difference between the rent and the member's housing allowance. Occupants have the right to purchase the units at below-market prices during the last five years of the 10-year partnership. The recorded obligation totaled

$9 million from the equity investment ($6 million) and the differential lease payments ($3 million).

- Corpus Christi, Texas: In exchange for 404 units of off-base housing and a share of proceeds and equity, the Navy provided an equity investment of $10 million and funds the difference between the rent and the member's housing allowance. The recorded obligation amounted to $19 million from the equity investment ($10 million) and the differential lease payments ($9 million).

Thus, for these four projects DoD obtained about $320 million worth of housing at the expense of $44 million in obligational authority.

MHPI Under Government-wide Accounting Principles. The principles guiding the accounting for programs like the MHPI are defined in the conference report to the Balanced Budget Act of 1997 (H. Rept. 105-217, pages 1007-1012). CBO believes that the four listed projects meet the criteria stated in the scorekeeping guidelines for a lease-purchase with substantial government risk. Although current MHPI projects employ tools like direct loans, they are more fundamentally projects that achieve the practical effects of government ownership of the properties. Thus, up-front scoring of obligations and outlays is more appropriate than the methods of credit reform.

In CBO's view, those guidelines require the up-front accounting of obligations and outlays for those four projects and for other similar projects this bill would make possible. First, the construction is occurring on federal land for at least two of the four projects. Second, the private-sector market for the housing will be sharply constrained. On-base housing will probably be restricted to military personnel for security and other such reasons. Off-base housing must first be offered to servicemembers over civilians, and since demand for on-base housing exceeds supply, the practical effect would likely be the same as for a federally constructed facility. Third, although DoD is not providing an open-ended guarantee of third-party financing, it is essentially committing itself to providing tenants. Finally, DoD is providing the developers with significant portions of their up-front equity, including direct loans and cash investments.

In sum, the lease-purchase criteria clearly apply to the two projects on government property (Lackland AFB and Fort Carson). The proper treatment of the other two projects is less clear, but on balance, CBO believes that they too are the equivalent of lease-purchases with substantial government risk because the housing units will be built or renovated for governmental purposes and would be based on a significant financial commitment by the government. On that basis, the true obligations and outlays from current projects are higher than were recorded, as would be the obligations and outlays from future projects if they are recorded the same way.

Table 4 shows how CBO believes these projects should be recorded in the budget, compared to the approach used by the Administration.

TABLE 4. ILLUSTRATIVE SCORING OF MHPI AUTHORITIES FOR FOUR PROJECTS

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
Administration Approach to Scoring						
Estimated Obligation	44	0	0	0	0	0
Estimated Outlays	24	7	4	1	1	1
CBO Approach to Scoring						
Estimated Obligation	320	0	0	0	0	0
Estimated Outlays	100	160	50	1	1	1

SOURCE: Congressional Budget Office based on information from the Department of Defense.

NOTE: This table illustrates the approach that the Administration uses for recording obligations and outlays for four MHPI projects compared to the approach that CBO believes would be in keeping with government-wide accounting principles. The four projects are family housing initiatives at Lackland AFB, Ft. Carson, Naval Station Everett, and Corpus Christi. For illustrative purposes, we assume the obligations for the four projects occur in 2000 even though actual obligations occurred in other years.

Direct Spending

The bill contains provisions that would affect direct spending primarily through changes to defense health programs. We estimate that the direct spending from provisions of H.R. 4205 would total about $165 million over the 2001-2005 period.

Demonstration of Medicare Subvention. DoD provides health care to almost 350,000 retirees and survivors who are over age 64 and eligible for Medicare. This health care is provided at MTFs on a space-available basis and includes some services that Medicare does not cover, primarily prescription drugs. Under current law, DoD cannot bill Medicare for the cost of providing health care to those beneficiaries over age 64 except in a demonstration project.

The Congress authorized a demonstration project at up to six sites beginning in January 1998 and ending in December 2000. Under that demonstration, DoD provides care to

Medicare-eligible beneficiaries and is reimbursed under certain conditions by the Health Care Financing Administration (HCFA), which administers Medicare. The most important condition is the requirement that DoD maintain a level of effort; any additional care is reimbursable by HCFA up to a cap set in law. This care and reimbursement procedure is known as Medicare subvention. To date, however, HCFA has not reimbursed DoD for any care provided under this program.

Section 725 would extend the demonstration project for three more years, through the end of 2003. In the current demonstration project, enrolled beneficiaries use substantially more care than civilians enrolled in Medicare managed care plans. Because these enrollees have a high priority for care in MTFs, Medicare-eligible beneficiaries who now receive space-available care at MTFs and choose not to enroll in the subvention program would not be able to use the MTFs as frequently as they otherwise would. Instead, they would obtain more of their care in the private sector, thus raising costs for the Medicare program because Medicare would be paying for some services that would otherwise be provided at MTFs. CBO estimates that these provisions would cost $20 million in 2001 and $95 million over the 2001-2005 period (see Table 5).

FEHB Demonstration Program. Under current law, military retirees under the age of 65 are eligible to either enroll in DoD's managed care program (Tricare Prime) or use one of its insurance programs (Tricare Standard or Extra). Those who use Tricare Standard or Extra may also seek care at an MTF on a space-available basis. Once retirees turn age 65, they are no longer eligible to use Tricare, though they may continue to seek care at an MTF when space is available. The same eligibility rules apply to survivors, who are primarily widows and widowers.

Section 723 would extend a current demonstration project by three years (through December 2005), increase the number of eligible sites, and allow new or extended enrollment in all sites. The demonstration allows up to 66,000 people to enroll in FEHB at up to 10 sites, though only about 2,000 people are currently enrolled. Because there would be more sites and increased familiarity with the program, CBO estimates that the program would eventually cover a total of about 13,000 people—10,000 in existing sites and 3,000 in new sites under H.R. 4205. Expanding coverage to new sites would cost $18 million over 2001 and 2002, and extending the demonstration project for one more year would cost an additional $63 million over the 2003-2005 period. The government's contribution toward FEHB premiums for beneficiaries under H.R. 4205 would be direct spending because the bill would add an entitlement benefit.

TABLE 5. ESTIMATED DIRECT SPENDING FROM HEALTH CARE PROVISIONS IN H.R. 4205

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
DIRECT SPENDING						
Cost Increases in Medicare						
Spending Under Current Law						
Estimated Budget Authority	195,113	211,518	217,077	234,887	250,997	274,149
Estimated Outlays	195,113	211,518	217,077	234,887	250,997	274,149
Proposed Changes						
Medicare Subvention						
Estimated Budget Authority	0	20	30	35	10	0
Estimated Outlays	0	20	30	35	10	0
FEHB Demonstration Project						
Estimated Budget Authority	0	1	1	4	1	0
Estimated Outlays	0	1	1	4	1	0
Tricare Senior Supplement						
Estimated Budget Authority	0	0	0	1	0	0
Estimated Outlays	0	0	0	1	0	0
Subtotal-Proposed Changes						
Estimated Budget Authority	0	21	31	40	11	0
Estimated Outlays	0	21	31	40	11	0
Spending Under H.R. 4205						
Estimated Budget Authority	195,113	211,539	217,108	234,927	251,008	274,149
Estimated Outlays	195,113	211,539	217,108	234,927	251,008	274,149
Costs of Premium Payments Under FEHB						
Spending Under Current Law						
Estimated Budget Authority	5,012	5,456	5,906	6,352	6,826	7,338
Estimated Outlays	5,012	5,456	5,906	6,352	6,826	7,338
Proposed Changes						
Estimated Budget Authority	0	7	11	48	15	0
Estimated Outlays	0	7	11	48	15	0
Spending Under H.R. 4205						
Estimated Budget Authority	5,012	5,463	5,917	6,400	6,841	7,338
Estimated Outlays	5,012	5,463	5,917	6,400	6,841	7,338
Total Changes in Direct Spending—Health Care Provisions						
Estimated Budget Authority	0	28	42	88	26	0
Estimated Outlays	0	28	42	88	26	0

In addition, extending the demonstration would tend to raise Medicare costs because better insurance coverage often leads to greater use of health care services. That increase would cost an estimated $7 million over the 2001-2005 period.

Tricare Senior Supplement. This program involves Tricare Standard and Extra in a demonstration project for retirees over age 64 and their dependents. The costs to DoD for those programs are treated as discretionary, but expanding them to cover beneficiaries of Medicare would raise direct spending by $1 million in 2003 (and by less than $500,000 in 2004). Other costs of Tricare Senior Supplement are discussed above with other spending subject to appropriation.

Retirement of Reserve Technicians. The reserves employ a number of civilian federal workers to perform administrative and maintenance tasks. These employees, known as military technicians, are usually required to be members of the reserve units for which they work. Under current law, employees who lose their membership in the reserves and were hired before February 10, 1996, have to retire as soon as they become eligible for an unreduced annuity under one of the civilian retirement programs. Section 518 of the bill would allow these employees to remain in their positions until they become eligible for an unreduced annuity or reach age 60, whichever is later. Technicians who have already been forced to retire and are under age 60 would be able to apply for reinstatement.

Based on information from DoD, CBO estimates that about 500 technicians would be affected by this provision. This includes 400 technicians who, under current law, would retire during the 2001-2005 period, and 100 technicians who have already retired but would be reinstated to their old positions. By allowing these technicians to delay their retirement, CBO estimates this bill would reduce spending on federal retirement benefits (function 600, income security) by $17 million over the 2001-2005 period. Since many technicians would be covered by the Federal Employees Health Benefits Program (function 550, health) after their retirement, this provision would also reduce direct spending in that program by $3 million over the same period.

Retroactive Housing Allowances. Section 604 would authorize retroactive BAH payments to compensate members who received lower BAH during January and February of 2000 compared to the BAH rate they received prior to December 31, 1999. CBO estimates that these retroactive payments would cost $1 million in 2001.

Property Transactions. Title XXVIII contains a variety of provisions that would authorize DoD to convey or lease land to nonfederal entities. These transactions would affect both large and small properties, ranging from about 700 acres at Fort Pickett, Virginia to about two acres at Fort Dix, New Jersey.

Conveyances. Some property that would be conveyed under title XXVIII has been—or soon will be—declared excess by DoD and transferred to the General Services Administration (GSA) for disposal. In some instances, GSA is likely to give the property to state or local governments, and in those cases conveyances would not affect receipts. In other instances, such as the conveyances of about 5 acres containing an Army Reserve Center in Galesburg, Illinois and about 100 acres at Fort Polk, Louisiana, the property would likely be sold under current law. Based on information from DoD, forgone receipts from these conveyances would total less than $500,000.

CBO has not received any information from the Administration on other parcels specified in the bill, some of which are large and potentially worth $1 million or more. Because CBO has no basis for knowing whether these parcels have been or will be declared excess and sold under current law, CBO cannot estimate the extent of any forgone receipts.

Leases. Section 2851 would allow the Navy to receive in-kind consideration for the lease of property at Port Hueneme, California. Under current law, the Navy will receive cash for that lease. CBO estimates that this provision would lower receipts by less than $500,000 annually.

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

- Section 506 would allow retirees receiving Voluntary Separation Incentive (VSI) payments concurrently with retired or retainer pay to give up the VSI payment. Currently, retirement pay is reduced by the amount of VSI payments. The formula for the offset causes retirement pay to be reduced by future VSI payments. Terminating participation in the program would accelerate outlays for military retirement. Based on information from DOD, CBO expects few people would be affected by this provision.

- Section 641 would increase reserve retirement pay by giving more credit toward annuities for time spent in training. While CBO estimates this provision would have a substantial effect when today's reservists reach 60 years of age and would begin to collect retirement benefits under this new rule, it would affect few people during the next 10 years.

- Section 642 would increase participation in the Reserve Component Survivor Benefit Plan (RCSBP) by requiring certain reservists to obtain spousal consent to waive participation. Spousal consent is already required for reservists over 60 years of age. This provision would make that requirement effective when the reservist is first notified that he or she has completed the years of service required for retirement eligibility. CBO estimates the provision would create a negligible increase in payments to annuitants.

Revenues

Section 651 would allow members of the uniformed services on active duty and members of the Ready Reserve in any pay status to participate in the Thrift Savings Plan (TSP). Contributions would be capped at 5.0 percent of basic pay. In addition, servicemembers would be able to contribute income they receive in the form of special or incentive pay to the extent allowable under the Internal Revenue Code. This provision would become effective July 15, 2001, or earlier if certain legislative conditions are met. The Joint Committee on Taxation estimates that the revenue loss caused by deferred income tax payments would total $10 million in 2001 and $1.1 billion over the 2001-2010 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in direct spending that would result from H.R. 4205 are shown in Table 6. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

TABLE 6. ESTIMATED IMPACT OF H.R. 4205 ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	0	27	39	83	21	-5	-4	-4	-3	-2	-1
Changes in receipts	0	-10	-61	-82	-105	-125	-135	-144	-153	-162	-171

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains both intergovernmental and private-sector mandates, including one preemption of state law. None of the mandates would impose significant costs; therefore, the thresholds established by UMRA ($55 million for intergovernmental mandates and $109 million for private sector mandates in 2000, adjusted annually for inflation) would not be exceeded.

The bill would give the Secretary of Defense the authority to require recipients of military equipment either to ensure that the equipment is demilitarized or to return the equipment to DoD for demilitarization. The Secretary of Defense could also repossess the equipment under some circumstances. In all of those cases, the requirements would be considered intergovernmental and private-sector mandates because, if the equipment is not returned to DoD for demilitarization, the recipient would have to bear the costs of demilitarizing the equipment. However, this provision would be rarely used because, in most cases, DoD demilitarizes equipment prior to transferring ownership. Consequently, the costs of this mandate would be minimal.

The bill would extend and expand a demonstration project that involves intergovernmental and private sector mandates. Specifically, it would require insurers, under certain circumstances, to issue medigap policies to Medicare enrollees who choose to drop coverage from DoD's Federal Employees Health Benefits demonstration program. The bill would also prohibit insurers from discriminating in the pricing of such policies based on an individual's health status or use of care, or from using coverage exclusions for preexisting conditions as long as any lapse in coverage was no more than 63 days. Those requirements would be intergovernmental and private-sector mandates as defined in UMRA. However, because only a small number of people could be affected by these provisions, the direct costs of the mandates would be small.

In addition, the bill contains a mandate affecting only state governments. It would give legal effect to military testamentary instruments regardless of the provisions of state law. (A testamentary instrument is a document intended to take effect after the death of the person who executes it.) This provision would preempt state laws governing the execution of such documents; however, it would impose no costs on those governments.

The bill also would convey lands to state and local entities, provide support for cooperative efforts between the Civil Air Patrol and state and local governments, and authorize funding for assistance to local school districts and agencies.

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    Military and Civilian Personnel—Dawn Regan
    Civilian Retirement—Eric Rollins
    Food Stamps—Valerie Baxter
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    Military Retirement—Sarah Jennings
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