CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

November 3, 1998

H. R. 3616
Strom Thurmond National Defense Authorization Act for Fiscal Year 1999

As enacted on October 17, 1998

SUMMARY

The Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261) contains numerous provisions that will affect direct spending, including provisions affecting military health programs, spectrum receipts, voluntary early retirement authority, and survivor benefits of the military retirement program. In total, these provisions will increase outlays by $542 million over the 1999-2008 period.

The act will also reduce revenues by about $2 million annually as the result of a provision to allow the State Department to spend certain collections. Provisions to sell certain land and materials in the strategic stockpile would raise receipts by at least $490 million over the 1999-2008 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

Table 1 displays the budgetary effects of the provisions of Public Law 105-261 that affect direct spending, asset sales, and revenues. For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

Direct Spending

Demonstration Projects for Medicare-Eligible Military Retirees. Sections 721 and 722 require the Department of Defense (DoD) to establish demonstration projects involving health benefits for certain beneficiaries who are eligible for Medicare. Specifically, one

TABLE 1. BUDGETARY IMPACT OF PUBLIC LAW 105-261 ON DIRECT SPENDING, ASSET SALES, AND REVENUES (In millions of dollars)

Section	Provision	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	DIRECT SPENDING (OUTLAYS)										
721-722	FEHB Demonstration Projects	3	78	108	116	30	0	0	0	0	0
1064	Forgone Spectrum Receipts	0	50	50	50	0	0	0	0	0	0
1109	Voluntary Early Retirement Authority	0	0	10	59	50	35	16	-4	-17	-20
641	SBP Premiums	-5	-5	-5	-5	-5	-6	-6	-6	-6	-6
642	SBP Open Enrollment	-14	-32	-22	-19	-11	-3	5	12	19	25
517	Burial Flags	2	2	2	2	2	2	2	2	2	2
819	Truck Exchange	0	0	4	3	1	0	0	0	0	0
3156	DOE Separation Incentives	a	1	a	a	-1	-1	-1	-1	-1	-1
	Various Land Conveyances	b	b	b	b	b	b	b	b	b	b
	Subtotal	-14	94	147	206	66	27	16	3	-3	0
	ASSET SALES[c] (OUTLAYS)										
3303	National Defense Stockpile	-5	-130	-125	-100	-95	-30	-5	0	0	0
	Various Land Conveyances	d	d	d	d	d	d	d	d	d	d
	Subtotal	-5	-130	-125	-100	-95	-30	-5	0	0	0
	REVENUES										
1513	Trade Control Fees	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
	BILL TOTAL										
	Net Increase or Decrease (-) in the Surplus	17	34	-24	-108	27	1	-13	-5	1	-2

a. Costs of less than $500,000.

b. CBO does not have enough information to estimate the direct spending from land conveyances in the act. Some provisions would authorize spending from the proceeds of certain asset sales, and although proceeds and spending would cancel each other over time they would not do so on a yearly basis. Other provisions would authorize sales with payments delayed for 10 years; those provisions would have a subsidy cost under credit reform.

c. Under the Balanced Budget Act of 1997, proceeds from a nonroutine asset sale may be counted for purposes of pay-as-you-go scoring only if the sale would entail no net financial cost to the government. CBO estimates that the nonroutine asset sales that result from Public Law 105-261 will generate a net savings to the government, and therefore that the proceeds count for pay-as-you-go purposes.

d. CBO does not have enough information to estimate the budgetary impact of land conveyances that are authorized under the act.

project requires DoD to provide supplemental coverage under the Federal Employee Health Benefits Program (FEHBP) for up to 66,000 beneficiaries, and the other project offers Tricare as supplemental coverage to Medicare in two geographic areas that are more than 40 miles from a military treatment facility, so-called non-catchment areas. CBO estimates that the FEHBP project will raise direct spending by DoD (in budget function 050) by $245 million from 2000 through 2003. That increase in direct spending will be DoD's payment of the government contribution toward the FEHBP premium. There will be no budgetary impact in 1999 because the FEHBP project will begin on January 1, 2000, and end on December 31, 2002. CBO also anticipates that Medicare outlays will increase because beneficiaries who acquire supplemental health coverage under either demonstration project will use more Medicare services overall. CBO estimates that Medicare expenditures (in budget function 570) will rise by $91 million over the 1999-2003 period.

Forgone Spectrum Receipts. CBO estimates that the provisions in section 1064 regarding licenses for the use of the electromagnetic spectrum will result in a loss of about $150 million of offsetting receipts over the 1999-2003 period. Existing law requires the transfer of certain frequencies from federal to nonfederal jurisdiction, and the subsequent assignment of licenses to use those frequencies to private entities through auctions conducted by the Federal Communications Commission (FCC). Under prior law, all of the costs of relocating federal users from such frequencies were a federal responsibility and were to be financed using appropriated funds. Under this act, nonfederal entities will be obligated to compensate federal agencies in advance for the marginal costs incurred to relocate out of certain portions of spectrum being auctioned for commercial use. CBO expects that, under this act, the FCC will not receive bids for some portions of the spectrum because the projected cost of relocating federal users will likely exceed the market value of some licenses. In addition, CBO estimates that offsetting receipts from the auction of other portions of the spectrum will be lower than under prior law because of the uncertainty associated with the added liability to the prospective licensees.

DoD Voluntary Early Retirement Authority. Federal agencies that are undergoing a major reorganization or reduction in force may, with the approval of the Office of Personnel Management (OPM), offer their employees retirement benefits earlier than would normally be allowed. OPM and agencies have traditionally used a number of criteria to target offers of early retirement to particular groups of employees and thus address agencies' specific personnel needs. In September 1997, the Court of Appeals for the District of Columbia in *Torres v. OPM* struck down many of these criteria, ruling that OPM lacked the necessary statutory authority. The 1998 Supplemental Appropriations and Rescissions Act (Public Law 105-174) granted OPM the necessary authority, but only through fiscal year 1999. Section 1109 permanently codifies the previous practice for DoD, but will not take effect until October 1, 2000.

CBO estimates that section 1109 will lower discretionary spending by $31 million and increase direct spending by $129 million over the 1999-2008 period. CBO estimates that section 1109 will increase the number of DoD employees taking early retirement by 2,500 in 2001, and by about 200 per year in 2002 and 2003. The increase projected for 2002 and 2003 is much smaller because DoD does not have authority to offer incentive payments in those years. Moreover, DoD's workforce reduction targets for 2002 and 2003 are smaller than those for 2001. The increase in early retirements will raise spending on federal retirement benefits by $150 million between 2001 and 2008. By 2008, however, spending on benefits will be $20 million lower than under the previous law.

CBO also estimates that many of the 2,500 additional early retirees in 2001 will accept buyouts. For these employees, DoD will make $21 million in additional deposits to the Civil Service Trust Fund.

Termination of Premiums for Survivor Benefits. Under section 641, a military retiree participating in the Survivor Benefit Plan (SBP) will stop paying premiums after paying them for 30 years and reaching 70 years of age. Because the act specifies October 1, 2008, as the effective date, no premium income will be lost until that time. However, CBO estimates that some individuals who would have stopped participating in SBP under previous laws will continue to pay premiums under section 641. Thus, CBO estimates that the government will collect additional premiums of $5 million to $6 million a year until 2009, when costs will be about $125 million. Direct spending costs will continue to increase after 2009 before eventually leveling off.

Survivor Benefit Plan Open Enrollment. Section 642 will allow military retirees, who did not elect to enroll at the time of their retirement, to enroll in the Survivor Benefit Plan. The enrollment option will be available for one year beginning on March 1, 1999. CBO estimates that the government will collect an average of about $30 million a year in additional premiums over the 1999-2008 period. The government will begin to incur additional costs in 2001, and CBO expects that they will begin to exceed the additional premium income in 2005. CBO estimates that net outlays will be about $5 million in 2005 and will increase to about $25 million in 2008. Net costs will continue to increase after 2008.

Burial Flags for Selected Reservists. Under section 517, the Department of Veterans Affairs (VA) will furnish burial flags on behalf of certain deceased members and former members of the Selected Reserve. Based on the average cost of $35 per flag incurred for other deceased veterans, CBO estimates that the costs of implementing this provision will be $2 million annually over the 1999-2008 period.

Truck Exchange. Section 819 will allow the Navy to give trucks and other vehicles to private firms in exchange for the repair of bridging equipment used by the Marine Corps. This authority will expire in 2003. Under previous law, receipts from the sale of these vehicles would be deposited in the Treasury. Based on information from the Navy, CBO estimates that the loss of receipts from section 819 will begin in 2001 and will total about $8 million over three years.

Extension of DOE Incentive Payments. Section 3156 allows the Department of Energy (DOE) to offer buyouts to employees who voluntarily retire or resign before January 1, 2001. These payments will induce some employees to retire—and begin receiving federal retirement benefits—earlier than they would otherwise. These additional benefit payments represent direct spending. In later years, annual federal retirement outlays will be lower than under prior law because employees who retire earlier will receive a smaller annuity. According to DOE, about 450 employees will receive buyouts under this provision. CBO estimates that these buyouts will increase direct spending by $1 million in 2000. Starting in 2003, this provision will lower federal retirement outlays by $1 million annually.

Other Provisions. Various other provisions of the bill would have a negligible budgetary impact:

- Section 377 allows DoD, in 1999 and 2000, to collect and spend landing fees from civilians who use military airfields.

- Section 512 allows National Guard officers to compute their time-in-grade for retirement purposes from the date they are confirmed by the Senate.

- Section 513 allows reserve generals and flag officers who are involuntarily transferred from active status to retire at a higher grade if they have served two years, instead of three years, at that grade.

- Section 561 extends DoD's authority to require the retirement of certain senior officers who fail to receive promotions to the next higher grade.

- Section 643 requires certain retirees to begin paying premiums under the Survivor Benefit Plan the month following a court order.

- Section 813 gives DoD the authority to spend certain rebates it receives from travel agencies under contracts with the department.

- o Section 1010 allows DoD to spend reimbursements from companies that damage personal property during shipping if DoD has reimbursed the owners of the property.

- o Section 1063 allows the superintendents of the military academies to receive and spend funds awarded in research grants.

- o Section 1067 increases the amount of fees that may be collected and spent for a program to commemorate the 50th anniversary of the Korean War.

- o Section 2813 authorizes the Secretary of Defense to accept donations of funds, property, or services in connection with the department's programs for public outdoor recreation at military sites.

Land Conveyances. The act contains several provisions that convey land to nonfederal entities. Some of the provisions will raise receipts of the federal government, but others will lower them. CBO cannot estimate the aggregate budgetary impact precisely because DoD has not assessed the market value of all the affected properties. However, the net impact will probably be an increase in spending.

Section 1043 requires the Armed Forces Retirement Home (AFRH) to sell a 49-acre parcel of land in Washington, D.C., to the Washington Archdiocese of the Roman Catholic Church or a related entity. In return, the archdiocese will pay fair-market value for the parcel, as determined by the AFRH through an independent appraisal of the property's "highest and best economic use." Under prior law, the AFRH had the authority to either sell or lease the land to any party. The AFRH had not decided what to do with the property, but appeared most interested in leasing the land on a long-term basis. By requiring the AFRH to sell the land, the act will increase receipts in 2000, when the property will likely be sold, but eliminate any receipts from lease payments in subsequent years.

Although the act stipulates that the AFRH receive fair market value for the land, the resulting sale price is still likely to be lower than if the land were sold by competitive bid. According to the General Services Administration, proceeds from property sales by auction or sealed bid over the last five years have generally exceeded appraised values by 10 percent to 20 percent. Nevertheless, there have been instances where a property's sale price was lower than its appraised value. On a present value basis, the act will probably—but not definitely—reduce the revenues the federal government will receive from the property. CBO does not have sufficient information to give a precise estimate of the size of this reduction, but it could amount to millions of dollars.

Section 2843 authorizes the sale of about 4,700 acres to the Indiana Reuse Authority and section 2844 conveys about 1,000 acres to Hamilton County, Tennessee. In each case, payment will occur 10 years after the land was transferred. The delayed payments will represent loans by the United States under procedures established by the Federal Credit Reform Act of 1990. The budgetary impact will be the difference between the sale price and the subsidy cost. However, because DoD does not know the market value of the land, CBO cannot estimate the budgetary effects of these provisions.

Sections 2843 and 2844 also grant the Secretary of the Army authority to accept and spend reimbursements from local authorities for administrative expenses incurred during the conveyances. Because receipts and spending will offset each other, this authority will have no net budgetary impact.

Section 2845 authorizes DoD to give about 300 acres to the town of New Windsor, New York. This property is excess to the needs of the Army, and without section 2845, all or part of it probably would have been turned over to the General Services Administration (GSA) for disposal. Under GSA's procedures, properties can be sold to the public if other entities, including other federal agencies, do not acquire them. Thus, section 2834 could result in a loss of receipts to the Treasury.

Section 2851 grants an easement of 340 acres at Camp Pendleton Marine Corps Base in California to a local transportation agency for the construction of a freeway. The agency will pay the United States fair market value for the easement, thereby increasing receipts to the Treasury.

Other sections either authorize DoD to give away or sell parcels of property that GSA might sell under its disposal procedures. CBO estimates that these sections will not have a significant budgetary impact either because the parcels of property are small or because the provisions will not significantly affect receipts that would have been collected under previous laws.

Asset Sales

The act authorizes DoD to sell several materials contained in the National Defense Stockpile to realize receipts totaling $105 million in 1999, $460 million through 2002, $555 million through 2003, and $590 million through 2005. CBO estimates that DoD will be able to sell the materials authorized for disposal and receive the amounts called for in the act. Table 1 shows only $5 million in 1999 receipts because sales of $100 million are subject to appropriation action.

Revenues

Section 1513 authorizes the Department of State to retain and spend registration fees collected by the Office of Defense Trade Control and currently classified as revenues. Based on information from the State Department, CBO estimates that this provision will reduce revenues by $2 million per year and have no net effect on spending.

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