



CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 9, 1998

S. 2057

National Defense Authorization Act for Fiscal Year 1999

As reported by the Senate Committee on Armed Services on May 11, 1998

SUMMARY

S. 2057 would authorize appropriations for 1999 for the military functions of the Department of Defense (DoD) and the Department of Energy (DOE). It also would prescribe personnel strengths for each active duty and selected reserve component of the U.S. armed forces. Assuming appropriation of the amounts authorized for 1999, CBO estimates that enacting S. 2057 would result in additional discretionary spending from 1999 appropriations of \$269 billion over the 1999-2003 period, including \$1.9 billion that would be designated as emergency funding. In addition, the bill contains provisions that would lower the costs of discretionary defense programs over the 2000-2003 period by about \$4.8 billion.

The bill would affect direct spending through land conveyances, the sale of naval vessels, loss of receipts from the auction of the electromagnetic spectrum, changes to military retirement and survivor benefit programs, and other provisions. CBO estimates that the bill would raise direct spending by \$71 million in 1999 and by \$1.1 billion over the 1999-2003 period. It also would generate receipts from asset sales totaling \$251 million in 1999. The combined effect would be to lower spending by \$180 million in 1999 but raise it by \$826 million over the 1999-2003 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply.

S. 2057 would require some airlines to extend federal government rates to reservists traveling to and from their inactive duty stations. This requirement may be a private-sector mandate as defined by the Unfunded Mandates Reform Act (UMRA). However, the cost of this provision would be small, and well below the threshold established by UMRA. UMRA excludes from application of that act legislative provisions that are necessary for the national security. CBO has determined that all other provisions in S. 2057 either fit within this exclusion or do not contain intergovernmental mandates as defined by UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2057 is shown in Table 1, assuming that the bill will be enacted by October 1, 1998.

Authorizations of Appropriations

The bill would authorize specific appropriations totaling \$273.5 billion in 1999 for military programs in DoD and DOE. The bill would authorize \$271.6 billion for ongoing programs and \$1.9 billion on an emergency basis to cover the incremental costs of operations in and around Bosnia and Herzegovina (see Table 2). These costs would fall within budget function 050 (national defense). The estimate assumes that the amounts authorized will be appropriated for 1999. Outlays are estimated based on historical spending patterns. In addition, S. 2057 would authorize specific appropriations for other budget functions:

- o \$117 million for the Naval Petroleum Reserve (function 270).
- o \$71 million for the Armed Forces Retirement Home (function 700).

The bill also contains provisions that would affect various costs, mostly for personnel, that would be covered by the fiscal year 1999 authorization and by authorizations in future years. Table 3 contains estimates of these amounts. In addition to the costs covered by the 1999 authorizations in the bill, these provisions would lower estimated costs by \$4.8 billion over the 2000-2003 period. The following sections describe the estimated authorizations shown in Table 3 and provide information about CBO's cost estimates.

Endstrength. The bill would specifically authorize appropriations of \$70.4 billion for military pay and allowances in 1999. Under the bill, the authorized endstrengths in 1999 for active-duty personnel and personnel in the Selected Reserve would total 1,395,780 and 877,094, respectively. Compared to the minimum endstrength level set in current law--1,431,379 active-duty personnel--the endstrength specified in S. 2057 would lower personnel costs by \$1.5 billion to \$1.7 billion annually.

Also the bill would authorize an endstrength of 8,000 in 1999 for the Coast Guard Reserve. This authorization would cost about \$69 million and would fall under budget function 400, transportation.

Grade Structure. Section 415 would change the grade structure of active-duty personnel in support of the reserves. This change would not increase the overall endstrength, but would result in more promotions. The provision would cost about \$3 million a year.

TABLE 1. BUDGETARY IMPACT OF S. 2057 AS REPORTED BY THE SENATE COMMITTEE ON ARMED SERVICES (By fiscal year, in millions of dollars)

	1998	1999	2000	2001	2002	2003
SPENDING SUBJECT TO APPROPRIATION ACTION						
Spending Under Current Law for Defense Programs						
Budget Authority ^a	270,786	0	0	0	0	0
Estimated Outlays	269,058	91,071	33,952	15,117	6,586	3,047
Proposed Changes						
Regular Authorizations						
Authorization Level	0	271,867	0	0	0	0
Estimated Outlays	0	179,519	54,255	20,578	9,103	3,590
Emergency Authorizations						
Authorization Level	0	1,859	0	0	0	0
Estimated Outlays	0	1,533	283	32	8	0
Spending Under S. 2057 for Defense Programs						
Authorization Level ^a	270,786	273,726	0	0	0	0
Estimated Outlays	269,058	272,123	88,490	35,727	15,697	6,637
DIRECT SPENDING						
Estimated Budget Authority	0	71	74	264	508	160
Estimated Outlays	0	71	74	264	508	160
ASSET SALES^b						
Estimated Budget Authority	0	-251	c	c	c	c
Estimated Outlays	0	-251	c	c	c	c

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

- a. The 1998 level is the amount appropriated for programs authorized by the bill.
- b. 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 would result from enacting S. 2057 would generate a net savings to the government, and therefore that the proceeds would be counted for pay-as-you-go purposes.
- c. CBO does not have enough information to estimate the budgetary impact of land conveyances that would be authorized under S. 2057.

TABLE 2. SPECIFIC AUTHORIZATIONS IN THE NATIONAL DEFENSE AUTHORIZATION ACT, 1999,
AS REPORTED BY THE SENATE COMMITTEE ON ARMED SERVICES
(By fiscal year, in millions of dollars)

Category	1999	2000	2001	2002	2003
Military Personnel					
Authorization Level	70,434	0	0	0	0
Estimated Outlays	66,472	3,451	211	70	0
Operation and Maintenance					
Authorization Level	94,314	0	0	0	0
Estimated Outlays	71,370	17,474	3,062	1,073	439
Procurement					
Authorization Level	49,782	0	0	0	0
Estimated Outlays	11,601	14,107	12,469	6,446	2,586
Research, Development, Test, and Evaluation					
Authorization Level	36,271	0	0	0	0
Estimated Outlays	18,882	13,306	2,730	689	241
Military Construction and Family Housing					
Authorization Level	8,277	0	0	0	0
Estimated Outlays	2,630	2,536	1,497	795	255
Atomic Energy Defense Activities					
Authorization Level	11,918	0	0	0	0
Estimated Outlays	7,893	3,266	615	48	48
Other Accounts					
Authorization Level	802	0	0	0	0
Estimated Outlays	330	168	113	41	40
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	280	-60	-120	-60	-20
Subtotal - Regular Authorizations					
Authorization Level	271,798	0	0	0	0
Estimated Outlays	179,457	54,248	20,578	9,103	3,590
Emergency Authorizations					
Authorization Level	1,859	0	0	0	0
Estimated Outlays	1,533	283	32	8	0
Total					
Authorization Level	273,657	0	0	0	0
Estimated Outlays	180,990	54,531	20,610	9,111	3,590

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN S. 2057 AS REPORTED BY THE SENATE COMMITTEE ON ARMED SERVICES
(By fiscal year, in millions of dollars)

Category	1999	2000	2001	2002	2003
Endstrengths					
Department of Defense					
Estimated Authorization Level	-1,485	-1,537	-1,595	-1,647	-1,700
Estimated Outlays	-1,402	-1,524	-1,585	-1,639	-1,690
Coast Guard Reserve					
Estimated Authorization Level	69	0	0	0	0
Estimated Outlays	62	7	0	0	0
Grade Structure					
Estimated Authorization Level	3	3	3	3	3
Estimated Outlays	3	3	3	3	3
Compensation and Benefits (DoD)					
Military Pay Raise in 1999					
Estimated Authorization Level	6	6	6	6	6
Estimated Outlays	6	6	6	6	6
Expiring Bonuses and Allowances					
Enlistment/reenlistment Bonuses (Active)					
Estimated Authorization Level	0	43	13	12	9
Estimated Outlays	0	41	15	12	9
Aviation and Nuclear Special Pay					
Estimated Authorization Level	0	23	8	8	7
Estimated Outlays	0	21	9	8	7
Various Bonuses (Reserve)					
Estimated Authorization Level	0	14	11	8	4
Estimated Outlays	0	13	12	9	4
Special Pay for Nurses					
Estimated Authorization Level	0	3	0	0	0
Estimated Outlays	0	3	0	0	0
Voluntary Separation/Early Retirement					
Estimated Authorization Level	0	160	160	160	160
Estimated Outlays	0	155	160	160	160
Benefits for Involuntary Separations					
Estimated Authorization Level	0	40	40	40	40
Estimated Outlays	0	38	40	40	40

Continued

TABLE 3. CONTINUED

Category	1999	2000	2001	2002	2003
Recruiting Incentives					
Estimated Authorization Level	32	28	22	20	20
Estimated Outlays	32	28	22	20	20
Termination of Survivor Premiums					
Estimated Authorization Level	21	22	22	23	23
Estimated Outlays	21	22	22	23	23
Changes in Reenlistment Bonuses					
Estimated Authorization Level	10	6	4	4	2
Estimated Outlays	10	6	4	4	2
Education Loan Repayment					
Estimated Authorization Level	10	10	5	0	0
Estimated Outlays	10	10	5	0	0
Incentive Payments to Civilian Employees					
Estimated Authorization Level	0	42	41	154	125
Estimated Outlays	0	42	41	154	125
Health Care Provisions					
Estimated Authorization Level	14	25	26	27	5
Estimated Outlays	14	25	26	27	5
Long-Term Charter of a Naval Vessel					
Estimated Authorization Level	77	24	0	0	0
Estimated Outlays	4	10	11	10	11
Limitation of Price Preference for SDBs					
Estimated Authorization Level	-8	-8	-8	-9	-9
Estimated Outlays	-8	-8	-8	-9	-9
Other Provisions					
Estimated Authorization Level	5	5	9	6	5
Estimated Outlays	5	5	9	6	5
Total Authorization of Appropriations					
Estimated Authorization Level	-1,246	-1,091	-1,233	-1,185	-1,300
Estimated Outlays	-1,243	-1,097	-1,208	-1,166	-1,279

NOTE: For every item in this table except one, the 1999 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.

Compensation and Benefits. S. 2057 contains several provisions that would affect military compensation and benefits.

Pay Raises. Section 601 would raise basic pay by 3.1 percent or \$1.2 billion in 1999. Because the pay raise would be the same as under current law, section 601 would have no incremental costs. Section 602 would increase the pay rates for cadets and midshipmen at the service academies. The incremental cost of this provision would be \$6 million annually.

Expiring Bonuses and Allowances. Several sections would extend for three months DoD's authority to pay certain bonuses and allowances to current personnel. The authority is scheduled to expire at the end of fiscal year 1999, but in some cases renewing authorities for even brief periods results in costs over several years because payments are made in installments. CBO estimates that payment of enlistment and reenlistment bonuses for active duty personnel would cost \$43 million in fiscal year 2000. The cost of extending special payments for aviators and nuclear-qualified personnel would be \$23 million in 2000. Payment authorities for various bonuses for the Selected and Ready Reserve would total \$14 million in 2000. We estimate that authorities to make special payments to nurse officer candidates, registered nurses, and nurse anesthetists would cost \$3 million in 2000. The estimated cost of all these bonuses and allowances is \$163 million over the 2000-2003 period.

Voluntary Separation Benefits and Early Retirement. Section 522 would extend for four years DoD's authority to separate personnel by paying voluntary separation benefits and offering early retirement. Because DoD has made relatively little use of the voluntary separation benefit in recent years, CBO estimates the cost of extending that authority would be less than \$10 million a year. However, recent experience indicates that early retirement incentives may be used more often. CBO estimates that DoD would spend about \$150 million annually to cover the costs of extending an option to retire early.

Benefits for Involuntary Separations. Section 522 would also extend for four years transitional benefits for former military personnel who have left service involuntarily. These benefits include travel and transportation allowances, payments for storing household goods, and access to health care, commissaries, and family housing. CBO estimates that costs for extending these benefits would total \$40 million a year starting in 2000.

Recruiting Incentives. The bill would change restrictions governing two recruiting incentives that would be extended through January 1, 2000. Section 616 would increase the maximum enlistment bonus in the Army from \$4,000 to \$6,000 for individuals who enlist for three years and score 50 or above on the Armed Forces Qualification Test. Based on current recruitment goals, CBO estimates that costs for enlistment bonuses would increase by \$4

million in 1999 and about \$2 million in 2000. Under current law, enlistees cannot receive both the college fund benefits and an enlistment bonus. Section 619 would also allow certain enlistees to receive both recruitment incentives, which CBO estimates would cost \$8 million in 1999, \$6 million in 2000, and \$2 million in 2001.

In addition, the maximum benefit from the military college funds under section 618 would increase in 1999 from \$40,000 to \$50,000, at an estimated cost to the military pay accounts of \$20 million a year.

Termination of Premiums for Survivor Benefits. Under section 631 a military retiree participating in the Survivor Benefit Plan (SBP) would stop paying premiums after paying them for 30 years and reaching 70 years of age. This provision would increase the payment that DoD makes to the Military Retirement Trust Fund for accruing retirement benefits. CBO estimates that those costs would average about \$22 million a year over the first several years. The provision would also lead to increases in direct spending as discussed below.

Changes in Reenlistment Bonus Eligibility. The services extend reenlistment bonuses to personnel in specialties characterized by inadequate manning, low retention, and high replacement costs. The maximum bonus payment under current law is \$45,000, but no more than ten percent of the bonuses can exceed \$20,000. Section 615 would remove the ten percent restriction and allow the services to extend large bonuses to more people. In addition, section 614 would allow the services to extend reenlistment bonuses to reserve members performing active guard and reserve duty. CBO estimates that these changes would cost about \$10 million in 1999 and \$26 million over the 1999-2003 period.

Caps on Education Loan Repayment. The bill would increase the authorized caps on loans that DoD may repay for health professionals serving in the Selected Reserve and who have critical skills. The repayment caps would increase from \$3,000 per year and \$20,000 in total to \$20,000 and \$50,000, respectively. The provision would cost an estimated \$10 million in 1999 and \$25 million over the 1999-2003 period.

Incentive Payments To Civilian Employees. CBO estimates that together sections 1103 and 1104 would raise discretionary costs by \$362 million and direct spending by \$343 million over the 1999-2003 period. Section 1103 would extend DoD's authority to offer incentive payments to civilian employees who voluntarily retire or resign. This authority, currently scheduled to expire at the end of fiscal year 2001, would be extended through fiscal year 2003. Section 1104 would authorize DoD to target offers of early retirement to specific groups of employees. DoD frequently offers incentive payments and early retirement to the same employees, and has found that the two methods are more effective when used together.

As a result, the net impact of enacting both sections 1103 and 1104, on both DoD workforce reductions and the budget, is greater than the individual impact of each provision.

Based on information provided by DoD and the Office of Personnel Management (OPM), CBO estimates that section 1103 would increase discretionary spending by \$244 million in 2002 and 2003. Section 1104 would increase discretionary costs by \$76 million between 2000 and 2003. If both provisions were enacted, discretionary spending would increase by an additional \$42 million in 2002 and 2003. These costs reflect additional incentive payments and deposits to the Civil Service Trust Fund that DoD would be required to make for each employee who accepts an incentive payment. These figures also incorporate savings that DoD would realize due to lower spending on severance payments associated with involuntary separations. Additional information about the budgetary impact of these provisions is provided below in the discussion of impacts on direct spending.

Military Health Care Programs and Benefits. Title VII contains several provisions that would affect health care programs and benefits although only a few would have a budgetary impact.

Demonstration Projects. Section 707 would require DoD to establish three demonstration projects involving health benefits for certain beneficiaries who are eligible for Medicare and who live 40 miles or more from a military treatment facility (MTF), a so-called catchment area. Specifically, one project would offer mail-order pharmacy benefits; another would offer Tricare as supplemental coverage to Medicare; and a third would offer supplemental coverage under the Federal Employee Health Benefits Program (FEHBP). The bill would cap DoD's costs at \$60 million a year for the term of the demonstrations. The budgetary impact of section 707 would include both an increase in spending subject to appropriation and direct spending.

CBO estimates that DoD would spend \$14 million in 1999 and \$104 million over the 1999-2003 period for the demonstrations of providing mail-order pharmacy benefits and Tricare coverage as a supplement to Medicare. Those costs would be subject to appropriation. (The direct spending costs of the third demonstration are discussed below with other provisions affecting direct spending.) The estimate assumes that 11,000 beneficiaries eligible for Medicare reside in each of six demonstration sites, based on the average number of such individuals living outside catchment areas. This estimate assumes DoD would offer benefits under each project to roughly the same number of beneficiaries. (Thus, DoD's spending on each project would depend on the per capita cost of the benefits offered.) Alternatively, DoD could design the demonstration to spend roughly the same amount on each project. If this were the case, DoD would spend roughly \$40 million annually on these two projects.

Dependents' Dental Premiums. Under current law, participating dependents of active-duty personnel must pay part of the premium for dental care coverage, but the amount is capped at \$20 per month per family. Section 701 would allow DoD to adjust the participants' premiums by the military pay raise. CBO estimates that this provision would reduce DoD's costs by a negligible amount in 1999 but that savings would increase by about \$500,000 annually thereafter, totaling \$6 million over the 1999-2003 period.

Automatic Enrollment and Reenrollment in Tricare Prime. Under current law, if dependents of active-duty personnel want to join Tricare Prime, they must enroll each year. Enrollees can choose either military or civilian primary care providers or they may be assigned to civilian providers if an MTF reaches its enrollment capacity. Section 703 would provide that dependents of members in grades E-4 or below who live outside a catchment area be automatically enrolled in Tricare Prime at the MTF. They would remain enrolled at the MTF until they elect to disenroll or become ineligible for coverage.

Although automatic enrollment could encourage some dependents who do not currently rely on military health care to join Tricare, CBO believes that the costs to DoD would be negligible because nearly all dependents of members in grades E-4 and below already use the military health system. But, if automatic enrollment encourages current participants in Tricare Extra and Tricare Standard to get care from the MTFs instead, then DoD would incur more costs in its direct care system. However, only a small part of this population would be likely to change providers based solely on automatic enrollment, and because Tricare contractors would experience lower health care costs from shifts to the MTFs, at least some of DoD's extra costs would be offset by adjustments to the price of the managed care contracts.

Authority to Provide Tricare Coverage. Under current law beneficiaries lose eligibility for Tricare once they are eligible for Medicare. Section 704 would allow DoD to extend Tricare eligibility through June 30, 1999, for certain beneficiaries who have become eligible for Medicare because of a disability but who have not enrolled in Medicare Part B. CBO estimates that DoD would spend about \$3 million in health care costs for these individuals, based on information from DoD on the number of affected beneficiaries. Information from DoD suggests that it has been willing to pay these expenses even though current law does not require it. Thus, assuming that DoD would continue to pay these costs under current law, this provision would have no net budgetary impact.

Long-Term Charter of Naval Vessels. Section 1012 would authorize the Secretary of the Navy to charter three vessels in support of submarine rescue, escort, and towing. Two of the vessels would be leased through 2005 and a third vessel would be leased through 2012. The charter would be a capital lease that would cost about \$101 million through 2003. Because

two charters would begin in 1999 and the third would begin in 2000, the estimated authorization is counted in those two years. The estimate is based on information provided by the Navy and the owner of the vessels.

Limitation of the Price Preference for SDBs. Under current law, DoD may enter into contracts with small disadvantaged businesses (SDBs) to pay prices that exceed the fair market price in order to facilitate awarding at least five percent of its contracts to SDBs. Section 803 would deny that authority except when DoD failed to reach that goal in the preceding fiscal year. Information from DoD suggests that contracts awarded to SDBs in recent years have exceeded the goal and have resulted in annual price premiums totaling between \$7.5 million and \$10 million. On this basis, CBO estimates that section 803 would save \$8 million a year.

Other Provisions. The bill contains several other provisions that would have a budgetary impact totaling about \$5 million annually.

DARPA Personnel Management. Section 1105 would authorize the Secretary of Defense to appoint not more than 20 eminent experts in science and engineering to work in research and development projects administered by the Defense Advanced Research Projects Agency (DARPA). The authorization would extend over the five-year period beginning on the date of the enactment S. 2057. CBO estimates that implementing section 1105 would cost \$3 million a year over the 1999-2003 period.

Pay Increase for Safety Personnel at Defense Nuclear Facilities. Under current law, the salary of safety personnel at defense nuclear facilities may not exceed the rate of pay for Level IV of the Executive Schedule. Section 3142 would change that limit to Level III, an increase of about \$7,500 per person per year. CBO estimates that this provision would raise DOE's personnel costs by less than \$2 million a year for about 200 individuals.

National Defense Panel. Section 905 would authorize the Secretary of Defense to establish a National Defense Panel in 2001 and every four years thereafter to recommend a 10- and 20-year defense plan. The panel would consist of a chairman and eight other individuals from the private sector who are recognized experts in national security matters. The chairman would have the authority to hire an executive director and staff. CBO estimates that implementing section 905 would cost \$4 million in 2001 and \$1 million in 2002.

Reductions in Headquarters Staff. Section 904 would require the Secretary of Defense to reduce staffing in headquarters and various DoD agencies by the end of fiscal year 2003. Because total military personnel are determined by endstrength requirements, CBO assumes that the provision would mainly affect civilian employees. Starting from the employment

level of October 1, 1996, section 904 would require the elimination of approximately 33,000 civilian positions at estimated annual savings of about \$2.1 billion once the reduction is fully accomplished. Because such reductions are occurring under current law, CBO does not estimate additional savings under section 904.

Direct Spending and Asset Sales

S. 2057 contains several provisions that would affect direct spending and asset sales. As shown in Table 4, the bill would raise direct spending by \$71 million in 1999 and \$1,077 million over the 1999-2003 period. CBO estimates that it would raise receipts from asset sales by about \$251 million in 1999.

Forgone Spectrum Receipts. CBO estimates that the provisions in section 1062 regarding licenses for the use of the electromagnetic spectrum would result in a loss of offsetting receipts that could range from a few hundred million to several billion dollars 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 current law, the costs of relocating federal users are a federal responsibility and would be financed using appropriated funds. Under this bill, nonfederal entities would be obligated to compensate federal agencies in advance for costs incurred to relocate out of the portion of the spectrum being licensed for commercial use. Agency spending of the receipts collected from the licensees would be subject to appropriation.

The provisions in section 1062 could apply to spectrum auctions that are projected to generate about \$9 billion in receipts over the 1999-2003 period under current law. Obligating prospective bidders to pay the relocation costs associated with specific licenses would significantly depress interest in many, if not most, of those auctions. For example, recent reports have suggested that relocating certain DoD functions could cost an average of about 20 cents per megahertz per person, which is more than half the average price received in 1997 for wireless telecommunications licenses (the D, E, and F block auctions). Consequently, CBO estimates that offsetting receipts from spectrum licenses would be 5 percent to 10 percent lower than under current law because of the uncertainty associated with the added liability to the prospective licensees. In addition, CBO expects that the FCC would not receive bids for some portions of the spectrum because the projected cost of relocating federal users out of certain spectrum would likely exceed the market value of some licenses. As a result, we estimate that enacting section 1062 would reduce offsetting receipts by a total of \$800 million over the next five years. The loss of receipts could be significantly higher, depending on the extent to which bidders lack confidence in the estimates of their liability

TABLE 4. DIRECT SPENDING AND ASSET SALES IN S. 2057 (By fiscal year, budget authority and outlays in millions of dollars)

Category	1999	2000	2001	2002	2003
DIRECT SPENDING					
Forgone Spectrum Receipts	100	75	200	400	25
Incentive Payments to Civilian Employees					
Section 1103 incentives	0	0	0	-9	24
Section 1104 incentives	0	10	64	99	75
Interactive effects	<u>0</u>	<u>0</u>	<u>0</u>	<u>15</u>	<u>65</u>
Subtotal	0	10	64	105	164
Premiums for Survivor Benefits	-5	-5	-5	-5	-5
FEHB Demonstration Project	3	30	41	44	12
Spending of Travel Rebates	2	2	2	2	2
Leases of Naval Vessels	-29	-38	-38	-38	-38
Land Conveyance Spending	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>
Total Direct Spending	71	74	264	508	160
ASSET SALES^b					
Sale of Naval Vessels	-151	0	0	0	0
Stockpile Sales	-100	0	0	0	0
Land Conveyances	<u>c</u>	<u>c</u>	<u>c</u>	<u>c</u>	<u>c</u>
Total Asset Sales	-251	c	c	c	c
DIRECT SPENDING AND ASSET SALES					
Total	-180	74	264	508	160

- a. CBO does not have enough information to estimate the direct spending from land conveyances in S. 2057. 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. Another provision would authorize a sale with payment delayed for 10 years; that provision would have a subsidy cost under credit reform.
- b. 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 would result from enacting S. 2057 would generate a net savings to the government, and therefore that the proceeds would be counted for pay-as-you-go purposes.
- c. CBO does not have enough information to estimate the budgetary impact of land conveyances that would be authorized under S. 2057.

for relocation costs. Finally, CBO anticipates that some auctions would be postponed to allow time for federal agencies to finalize cost estimates and develop procedures for releasing information to bidders. Such delays would reduce auction receipts in 1999 but would have no significant net effect over time.

Incentive Payments to Civilian Employees. In addition to their impact on discretionary spending (discussed above), sections 1103 and 1104 of the bill would affect direct spending. Enacting both sections 1103 and 1104 would increase the number of employees taking incentive payments and retiring early in 2002 and 2003, and the budgetary impact of the two provisions taken together is greater than their separate impacts. CBO estimates that sections 1103 and 1104 would raise direct spending by about \$343 million (in budget functions 600 and 950) over the 1999-2003 period.

Section 1103. This provision would allow DoD to offer incentive payments to employees who voluntarily retire or resign in fiscal years 2002 and 2003. These payments would 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 would be lower than under current law because employees who retire earlier would receive a smaller annuity. By itself, section 1103 would increase net direct spending by a total of \$15 million in 2002 and 2003.

Based on information from DoD, CBO estimates that about 7,900 employees would accept incentive payments in 2002 and 2003 (see Table 5). CBO assumes that about 60 percent of these employees would retire at the same time under current law; the rest would be induced to retire one to two years early. As a result, CBO estimates that spending on federal retirement benefits would increase by \$76 million during the 2002-2003 period. In later years, annual spending on retirement benefits would decrease by about \$15 million relative to current law.

DoD would be required to make a deposit to the Civil Service Trust Fund equal to 15 percent of final pay for each employee who accepts an incentive payment. CBO estimates that these deposits would be about \$7,700 per employee and would increase deposits received by the trust fund by \$61 million in 2002-2003.

Section 1104. Federal agencies that are undergoing a major reorganization or reduction in force may, with the approval of the 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 recent supplemental appropriations bill (Public Law 105-174) granted OPM the necessary authority, but only through fiscal year 1999. Section 1104 would permanently codify the previous practice for DoD and, in the absence of section 1103, would increase direct spending by \$248 million over the 2000-2003 period.

TABLE 5. ESTIMATED NUMBER OF CIVILIAN EMPLOYEES OF DOD WHO WOULD RECEIVE INCENTIVE PAYMENTS AND TAKE EARLY RETIREMENT UNDER SECTIONS 1103 AND 1104 (Number of employees receiving each benefit)

	1999	2000	2001	2002	2003
CHANGES UNDER SECTION 1103					
Incentive Payments	0	0	0	4,300	3,600
Early Retirement	0	0	0	200	200
CHANGES UNDER SECTION 1104					
Incentive Payments	0	2,300	2,300	0	0
Early Retirement	0	2,500	2,500	200	200
CHANGES BASED ON INTERACTIONS					
Incentive Payments	0	0	0	1,700	1,400
Early Retirement	0	0	0	1,300	1,200
TOTAL UNDER S. 2057					
Incentive Payments	0	2,300	2,300	6,000	5,000
Early Retirement	0	2,500	2,500	1,700	1,600

NOTE: According to information from DoD, it plans to reduce its civilian workforce by 23,000 in 1999; 28,000 in 2000; 32,000 in 2001; 13,000 in 2002; and 12,000 in 2003. The CBO estimate of the number of employees receiving incentive payments and early retirements is also based on information from DoD. Because some individuals would receive both benefits, the figures are not additive.

Based on information from DoD and OPM, CBO believes that the *Torres* decision will lead agencies to sharply curtail their use of early retirement. Applications since the *Torres* decision indicate that the number of DoD employees projected to take early retirement are about 30 percent of pre-*Torres* levels. Without a change in law, DoD will have to rely more heavily on involuntary separations in order to reach its workforce reduction goals from 2000

to 2003. However, some employees who would have taken early retirement before the *Torres* decision will avoid the involuntary separations and continue working until taking regular retirement in later years. Because these employees will receive a higher annuity than they would have by retiring early, long-term spending on federal retirement benefits should increase in the wake of the *Torres* decision.

CBO estimates that section 1104 would increase the number of DoD employees taking early retirement in 2000 and 2001 by 5,000, and in 2002 and 2003 by about 400. The increase projected for 2002 and 2003 is much smaller because DoD does not currently have authority to offer incentive payments in those years. Moreover, DoD's workforce reduction targets for 2002 and 2003 are smaller than those for 2000 and 2001. The increase in early retirements would raise spending on federal retirement benefits by \$289 million between 2000 and 2003. But by 2008, spending on benefits would be \$40 million lower than under current law.

CBO also estimates that many of the 5,000 additional early retirees in 2000 and 2001 would accept incentive payments. For these employees, DoD would make \$41 million in additional deposits to the Civil Service Trust Fund.

Interaction Between Sections. DoD frequently offers incentive payments and early retirement to the same employees, and has found that the two methods are more effective when used together. As a result, the net impact of enacting both sections 1103 and 1104, on DoD workforce reductions and the budget, is greater than the individual impact of each provision. CBO estimates that enactment of both sections would result in an additional 3,100 employees taking incentive payments and an extra 2,500 employees taking early retirement in 2002 and 2003. CBO estimates that taken together the provisions would raise direct spending by about \$343 million over the 2000-2003 period or about \$80 million more than if they had no interaction.

Termination of Premiums for Survivor Benefits. Under section 631, a military retiree participating in the Survivor Benefit Plan (SBP) would stop paying premiums after paying them for 30 years and reaching 70 years of age. Because the bill would specify October 1, 2003, as the effective date, no costs would be incurred until that time. However, CBO estimates that some individuals who would stop participating in SBP under current law would continue to pay premiums under section 631. Thus, CBO estimates that the government would collect additional premiums of about \$5 million a year until 2004 when costs would more than offset the additional receipts. Direct spending costs (in budget function 600) would be about \$59 million in 2004 and would reach about \$120 million in 2008. Net costs would continue to increase after 2008 before leveling off.

Demonstration Projects for Medicare-Eligible Military Retirees. Section 707 would require DoD to establish three demonstration projects to offer certain health benefits to military beneficiaries who are also eligible for Medicare. Two of the projects would raise direct spending by a total of \$3 million in 1999 and \$130 million over the 1999-2003 period.

CBO estimates that the project that would allow coverage under the FEHB program would raise direct spending by \$103 million from 2000 through 2003. This estimate assumes that DoD offers enrollment to 22,000 individuals residing in two catchment areas and that 70 percent of them would join the program. Most of the increase in direct spending would be DoD's payment of the government contribution toward the FEHB premium. A small portion of the direct spending increase would be higher expenditures in the Medicare program because beneficiaries who acquire supplemental health coverage tend to use more Medicare services overall. CBO estimates that Medicare expenditures (in budget function 570) would rise by \$22 million over the 1999-2003 period. There would be no budgetary impact in 1999 from this project because the FEHB project would begin on January 1, 2000, and end on December 31, 2003.

CBO believes that the demonstration project offering Tricare supplemental coverage would also increase Medicare spending. To the extent that this benefit covers most or all of the Medicare deductibles and copayments, spending in the Medicare program would rise for the participants who acquire supplemental coverage through this project. Assuming that if the Tricare supplemental is like the most commonly purchased commercial Medigap plan, which covers the Medicare inpatient deductible and outpatient copayments, then Medicare spending would rise by about \$3 million in 1999 and \$26 million over the 1999-2003 period.

Spending From Rebates. Section 802 would give DoD the authority to spend rebates it receives from travel agencies under contracts with the department. Under current law, DoD is prevented from spending receipts that stem from certain contracts or that are credited to an appropriation that has lapsed. By allowing such funds to be spent, CBO estimates that section 802 would increase outlays by about \$2 million a year.

Leases and Sales of Naval Vessels. Section 1013 would authorize the transfer of 22 naval vessels to foreign countries: six by grant, eleven by sale, and five by lease or sale. CBO estimates the transfer would increase offsetting receipts by \$332 million over the 1999-2003 period--\$151 million from the sale of ships and \$181 million in lease payments. The estimate assumes the five ships authorized for transfer by sale or lease will be leased for five years, with quarterly payments beginning in the second quarter of fiscal year 1999.

Stockpile Sales. The bill would authorize DoD to sell several materials contained in the National Defense Stockpile to achieve receipts totaling \$100 million in 1999. CBO estimates that DoD would be able to sell the materials authorized for disposal and raise the receipts required by the bill.

Land Conveyances. The bill contains several provisions that would convey land to nonfederal entities. CBO cannot estimate the aggregate budgetary impact because DoD has not assessed the market value of all the affected properties.

Section 2821 would authorize the sale of about 5,000 acres to the Indiana Reuse Authority and section 2823 would convey about 1,000 acres to Hamilton County, Tennessee. In each case, payment would occur 10 years after the land was transferred. The delayed payment would represent loans by the United States under procedures established by the Federal Credit Reform Act of 1990. The budgetary impact would 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.

Sections 2821 and 2823 also would 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 would offset each other, this authority would have no net budgetary impact.

Other sections would either authorize DoD to give or sell parcels of property that GSA might sell under its disposal procedures. CBO estimates that these sections would not have a significant budgetary impact.

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

- o Section 313 would allow DoD to collect landing fees for the use of military airfields by civil aircraft and to use the fees to fund the operation and maintenance of the airfields during fiscal years 1999 and 2000.
- o Section 511 would allow National Guard officers to compute their time-in-grade for retirement purposes from the date they are confirmed by the Senate.
- o Section 512 would allow 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.

- o Section 522 would allow a limited number of reserve commissioned officers who retire voluntarily to retire at a higher grade if they have served two years, instead of three years, at that grade.
- o Section 632 would require certain retirees to begin paying premiums under the Survivor Benefit Plan the month following a court order.
- o Title XXXV would authorize the Panama Canal Commission (PCC) to solicit and accept donations of funds, property, and services from nonfederal sources for the purpose of carrying out promotional activities. This provision would have no net effect on direct spending because any new offsetting collections would be deposited into the FCC's revolving fund, from which they would be spent without further appropriation.
- o Section 1052 would allow the superintendents of the military academies to receive and spend funds awarded from research grants.
- o Section 1054 would allow DoD to spend reimbursements from companies that damage personal property during shipping if DoD has reimbursed the owners of the property.
- o Section 1056 would allow military historical centers to spend the amounts they collect as fees for providing information to the public.
- o Section 1061 would increase the amount of funding that would be derived from fees and spent for a program to commemorate the 50th anniversary of the Korean War.
- o Title XXIX, the Juniper Butte Range Land Withdrawal Act, would reserve approximately 12,000 acres of public land in Owyhee County, Idaho, for use by the Secretary of the Air Force for training and other defense-related purposes. Implementing title XXIX could lead to a decrease in offsetting receipts from grazing on federal lands, but because implementation would depend on appropriation action, CBO estimates that enactment of title XXIX would not, by itself, affect direct spending or receipts.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures

are shown in the following table. 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.

	By Fiscal Year, in Millions of Dollars											
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
Changes in outlays		0	-180	74	264	508	160	253	174	119	90	45
Changes in receipts												Not applicable

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The Unfunded Mandates Reform Act of 1995 (UMRA) excludes from application of that act legislative provisions that are necessary for the national security. CBO has determined that the provisions in S. 2057 either fit within this exclusion or do not contain intergovernmental mandates as defined by UMRA.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

One provision of S. 2057 could impose a new private-sector mandate. Section 623 of title VI would require airlines and other common carriers under contract with the General Services Administration to provide transportation at the contracted federal government rate to reservists traveling to and from their inactive duty training station. To the extent that the contracted government rate is lower than available commercial rates, this provision would reduce carriers' revenues and income. About 700,000 reservists are required to participate in monthly drills and annual training. The annual cost of this provision would be well below the \$100 million threshold set by UMRA, since most reservists travel to their training bases by private automobile rather than by common carrier. Furthermore, once the General Services Administration renegotiates its service agreements with the carriers, this provision would become a standard condition of the contract that the carriers accept, and would therefore no longer constitute a private-sector mandate.

PREVIOUS CBO ESTIMATE

On May 12, 1998, CBO prepared a cost estimate for H.R. 3616, the National Defense Authorization Act for Fiscal year 1999, as ordered reported by the House Committee on National Security.

ESTIMATE PREPARED BY:

Federal Cost:

The estimates for defense programs were prepared by Valerie Barton (military retirement), Shawn Bishop (health programs), Kent Christensen (military construction and other defense), Jeannette Deshong (military and civilian personnel), Raymond Hall (procurement, RDT&E, stockpile sales, and atomic energy defense activities), Dawn Sauter (operation and maintenance,) and Joseph C. Whitehill (sale of naval vessels).

Eric Rollins prepared the estimates for incentive payments to civilian employees (sections 1103 and 1104).

Kathy Gramp prepared the estimates of forgone receipts from auctioning the electromagnetic spectrum. Victoria V. Heid prepared the estimate for the withdrawal of the Juniper Butte Range Lands, and Deborah Reis prepared the estimate for the Panama Canal Commission.

Impact on State, Local, and Tribal Governments: Leo Lex

Impact on the Private Sector: R. William Thomas

ESTIMATE APPROVED BY:

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