CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 9, 2006

H.R. 5122
National Defense Authorization Act for Fiscal Year 2007

As reported by the House Committee on Armed Services
on May 5, 2006

SUMMARY

H.R. 5122 would authorize appropriations totaling $506 billion for fiscal year 2007 for the military functions of the Department of Defense (DoD), for activities of the Department of Energy (DOE), and for other purposes. That total includes $50 billion for military operations in Iraq and Afghanistan. The bill also would authorize an estimated $68 billion in 2006 supplemental appropriations for those operations to pay for additional costs not covered by appropriations provided earlier in the year. In addition, H.R. 5122 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 would result in additional outlays of $569 billion over the 2006-2011 period. Including outlays from funds previously appropriated, spending for defense programs authorized by the bill would total about $529 billion in 2007, CBO estimates. (By comparison, CBO estimates that such spending will total about $517 billion in 2006, assuming appropriation of pending supplemental appropriations.)

The bill also contains provisions that would both increase and decrease costs of discretionary defense programs over the 2008-2011 period. Most of those provisions would affect DoD force structure or would provide added compensation, benefits, or health care coverage to members of the armed forces. Provisions affecting force structure would lower costs by several billion dollars annually beginning in 2008. Certain other provisions—primarily those related to compensation and health care benefits—would each raise costs by several hundred million dollars to nearly $1 billion annually during the 2008-2011 period.

The bill contains provisions that would both increase and decrease direct spending, primarily from an expansion of authorities relating to military housing, changes in health care benefits for certain military retirees, and from the sale of materials held in the National Defense Stockpile. We estimate that those provisions combined would decrease direct spending by $11 million over the 2007-2011 period but have no net effect on such spending over the

2007-2016 period. Those totals include estimated net receipts from asset sales of $280 million over the 2007-2016 period. (Asset sale receipts are a credit against direct spending.) In addition, enacting the bill would reduce federal revenues by an estimated $3 million over the 2007-2011 period and by $21 million through 2016.

H.R. 5122 contains both intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). It would prohibit employers and other providers of group health coverage from offering incentives to military retirees and their dependents to decline enrollment in the group health plan in favor of relying on the DoD TRICARE program as the primary source of health coverage. It also would increase the maximum number of days that some reservists could be called to active duty. Both the prohibition and the extension would be intergovernmental and private-sector mandates as defined in UMRA. CBO estimates that the costs of those mandates would likely fall below the threshold for intergovernmental mandates but would exceed the threshold for private-sector mandates ($64 million for intergovernmental mandates in 2006 and $128 million for private-sector mandates in 2006, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5122 is summarized in Table 1. Most of the costs of this legislation fall within budget function 050 (national defense).

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 5122 will be enacted near the start of fiscal year 2007 and that the authorized amount will be appropriated for that year.

Spending Subject to Appropriation

The bill would specifically authorize appropriations totaling $506 billion in 2007 (see Table 2). Most of those authorizations fall within budget function 050 (national defense). Other funds would be authorized for activities within other budget functions; they include: $55 million for the Armed Forces Retirement Home (function 600—income security); $19 million for the Naval Petroleum Reserves (function 270—energy); and $145 million for the Maritime Administration (function 400—transportation).[1]

1. The $145 million in authorizations for the Maritime Administration in this estimate does not include $19.5 million cited in the bill for reimbursements to ship operators for certain vessel repair and maintenance costs because that amount is already authorized under existing law.

TABLE 1. BUDGETARY IMPACT OF H.R. 5122, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2007 (by fiscal year, in millions of dollars)

	2006	2007	2008	2009	2010	2011
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Programs Authorized by H.R. 5122						
Budget Authority [a]	482,986	0	0	0	0	0
Estimated Outlays	496,180	163,496	51,133	19,004	8,170	3,655
Proposed Changes						
Authorization of Supplemental Appropriations for 2006						
Estimated Authorization Level [b]	67,648	0	0	0	0	0
Estimated Outlays	21,056	29,112	12,205	3,324	913	404
Authorization of Regular Appropriations for 2007						
Authorization Level	0	455,823	0	0	0	0
Estimated Outlays	0	300,639	107,250	30,627	9,755	3,683
Authorization of Appropriations for 2007 for Military Operations in Iraq and Afghanistan						
Authorization Level[b]	0	50,000	0	0	0	0
Estimated Outlays	0	35,800	10,293	2,599	713	252
Spending Under H.R. 5122						
Estimated Authorization Level	550,634	505,823	0	0	0	0
Estimated Outlays	517,236	529,047	180,881	55,554	19,551	7,994
CHANGES IN DIRECT SPENDING (INCLUDING ASSET SALES) [c]						
Estimated Budget Authority	0	13	-26	9	38	13
Estimated Outlays	0	12	-27	-20	0	24
CHANGES IN REVENUES						
TRICARE for Reservists						
Estimated Revenues	0	0	0	0	-1	-2

NOTE: For 2007, the authorization levels under "Proposed Changes" include amounts specifically authorized by the bill. The bill also implicitly authorizes programs in 2008 through 2011; those authorizations are not included above (but are shown in Table 3) because funding for those programs would be covered by specific authorizations in future years.

a. The 2006 level is the amount appropriated for programs authorized by the bill.

b. These authorizations are for costs associated with operations in Iraq and in Afghanistan. For 2006, section 1002 of the bill would adjust existing authorizations to reflect supplemental appropriations provided for military operations in those two countries; the amount shown for 2006 is equal to appropriations that would be provided by H.R. 4939, the Emergency Supplemental Appropriations Act of Defense, the Global War on Terror, and Hurricane Recovery, 2006, as passed by the House. The amount shown for 2007 is the sum of the stated authorizations that would be provided by title XV of the bill.

c. Asset sale receipts are a credit against direct spending.

TABLE 2. SPECIFIED AUTHORIZATIONS IN H.R. 5122

Category	By Fiscal Year, in Millions of Dollars 2007	2008	2009	2010	2011
Authorization of Regular Appropriations					
Department of Defense (DoD)					
Military Personnel [a]					
Authorization Level	109,820	0	0	0	0
Estimated Outlays	104,656	4,503	220	110	0
Operation and Maintenance					
Authorization Level	151,611	0	0	0	0
Estimated Outlays	111,608	32,246	4,649	1,553	676
Procurement					
Authorization Level	85,333	0	0	0	0
Estimated Outlays	27,677	32,789	15,869	4,675	2,024
Research and Development					
Authorization Level	73,538	0	0	0	0
Estimated Outlays	40,413	27,646	4,256	1,046	295
Military Construction and Family Housing					
Authorization Level	16,959	0	0	0	0
Estimated Outlays	2,501	5,627	5,009	2,498	760
Revolving and Management					
Authorization Level	2,503	0	0	0	0
Estimated Outlays	1,806	463	119	73	28
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	1,000	-200	-400	-200	-100
Subtotal, Department of Defense					
Authorization Level	439,764	0	0	0	0
Estimated Outlays	289,661	103,074	29,722	9,755	3,683
Atomic Energy Defense Activities [b]					
Authorization Level	15,840	0	0	0	0
Estimated Outlays	10,809	4,140	891	0	0
Other Programs					
Authorization Level [c]	219	0	0	0	0
Estimated Outlays	169	36	14	0	0
Subtotal, Authorization of Regular Appropriations					
Authorization Level	455,823	0	0	0	0
Estimated Outlays	300,639	107,250	30,627	9,755	3,683

(Continued)

TABLE 2. CONTINUED

Category	By Fiscal Year, in Millions of Dollars 2007	2008	2009	2010	2011
Authorization of Appropriations for Military Operations in Iraq and Afghanistan					
Military Personnel					
Authorization Level	9,363	0	0	0	0
Estimated Outlays	9,335	0	0	0	0
Operation and Maintenance					
Authorization Level	32,933	0	0	0	0
Estimated Outlays	23,433	7,212	1,412	484	183
Procurement					
Authorization Level	5,166	0	0	0	0
Estimated Outlays	1,230	2,399	1,090	246	94
Research and Development					
Authorization Level	38	0	0	0	0
Estimated Outlays	19	14	2	1	0
Classified Activities					
Authorization Level	2,500	0	0	0	0
Estimated Outlays	1,678	585	163	50	13
Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	105	83	-68	-68	-38
Subtotal, Iraq and Afghanistan					
Authorization Level	50,000	0	0	0	0
Estimated Outlays	35,800	10,293	2,599	713	252
Total Specified Authorizations					
Authorization Level [c]	505,823	0	0	0	0
Estimated Outlays	336,439	117,543	33,226	10,468	3,935

a. For purposes of this estimate, CBO assumes that the authorization of appropriations in section 421 for military personnel includes $11,158 million for accrual payments for the TRICARE For Life program.

b. These authorizations are primarily for atomic energy activities within the Department of Energy.

c. These authorizations are for the Maritime Administration, the Armed Forces Retirement Home, and the Naval Petroleum Reserves.

For 2006, the bill also would adjust existing authorizations to reflect final Congressional action on pending supplemental appropriations for 2006 for military operations in Iraq and Afghanistan. For this estimate, CBO assumes those appropriations to DoD will total $68 billion, the amount approved by the House. If enacted, that funding would be in addition to the $50 billion already provided for those operations for 2006.

Although most of the $506 billion in funding for 2007 authorized by the bill would be for full-year costs of defense programs, $50 billion of that amount would be for DoD costs associated with continuing operations in Iraq and Afghanistan. That amount would likely cover only a portion of 2007 costs associated with those operations.

The estimate assumes that the amounts authorized for 2007 will be appropriated near the start of fiscal year 2007. The estimated outlays from authorizations of regular appropriations are based on historical spending patterns. Estimated outlays from the $50 billion that the bill would authorize for operations in Iraq and Afghanistan would likely cover costs incurred during the first part of the year.

The bill also contains provisions that would both increase and decrease various costs, mostly for changes in endstrength, military compensation, and health benefits, that would be covered by the fiscal year 2007 authorization and by authorizations in future years. Table 3 contains estimates of those amounts.

Multiyear Procurement. Multiyear procurement is a special contracting method authorized in Title 10, United States Code, section 2306b that permits the government to enter into contracts covering acquisitions for more than one year but not more than five years, even though the total funds required for every year are not appropriated at the time the contracts are awarded. As part of such a contract, the government commits to purchase all items specified at the time the contract is signed, including those to be produced and paid for in subsequent years. Because multiyear procurement allows a contractor to plan for more efficient production, such a contract can reduce the cost of an acquisition compared with the cost of buying the items through a series of annual procurement contracts.

Under a multiyear contract, the government may, at the end of each fiscal year, cancel its order for all remaining years of the contract if it notifies the contractor that funds are not available to proceed for the next fiscal year. If the contract is canceled, the government may owe the contractor more than the amount appropriated for items produced in the years before the cancellation. For example the government may be required to compensate the contractor for the costs of investments it made that it expected to recover over the full production quantity ordered under the multiyear contract. The maximum liability for contract cancellation at the end of any given year is usually negotiated up front and included in the terms of the contract.

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN H.R. 5122

Category	By Fiscal Year, in Millions of Dollars				
	2007	2008	2009	2010	2011
FORCE STRUCTURE					
Navy and Air Force Active-Duty Endstrengths	-2,324	-4,783	-4,925	-5,068	-5,218
Army and Marine Corps Active-Duty Endstrength	39	81	83	86	88
Reserve Component Endstrengths	-55	-113	-116	-120	-123
Reserve Technicians	107	222	230	238	247
COMPENSATION AND BENEFITS					
Pay Raises	439	698	721	745	769
Expiring Bonuses and Allowances	1,527	793	303	287	199
Special Pay for Reserve Health Care Professionals	10	12	12	2	0
Additional Special Pay for Dental Officers	4	4	4	4	4
Voluntary Separation Pay	73	173	366	105	0
Transportation of Vehicles	30	32	35	38	39
SGLI Premium Payments	31	23	16	10	10
Other Provisions	5	6	7	5	5
DEFENSE HEALTH PROGRAM					
TRICARE Reserve Select	0	336	611	859	977
TRICARE Use by Employed Retirees	-247	-366	-406	-446	-489
TRICARE Pharmacy	-9	-7	-5	-6	-6
TRICARE Cost Sharing	6	3	0	0	0
OTHER PROVISIONS					
Shipyard Loans	50	75	75	75	75
Shipyard Grants	50	50	50	50	50
Security Contracts	0	278	0	0	0
Defense Acquisition Challenge Program	0	30	31	32	32
Matters Relating to Other Nations	30	30	10	10	10
Transportation of Remains	14	11	8	6	6
Transition Assistance	5	9	8	8	8
Cold War Medal	2	16	7	4	3
Dependent's Education	6	6	6	6	6
Postage Benefit for Troops	27	3	0	0	0

NOTES: For every item in this table, the 2007 levels are included in Table 2 as amounts specifically authorized to be appropriated in the bill. Amounts shown in this table for 2008 through 2011 are not included in Table 1.

Details contained in text may not add to figures shown here because of rounding.

Although cancellation liability is incurred at the time the contract is signed, DoD does not request budget authority specifically for that liability because it treats cancellation as a contingent liability with only a remote probability of happening. If the Congress appropriates only the amount requested for the program, those appropriations may not be sufficient to cover the government's minimum contractual liability.

While the amount of the government's actual liability depends on how the program proceeds, at the time it signs the contract its minimum liability is the sum of the production costs for the items ordered in the first year and the cancellation costs at the end of that year. Regardless of whether the multiyear procurement contract proceeds for the full term or is canceled early, the government's initial obligation to the contractor will exceed the amount required to pay for items ordered in the first year. An appropriation that covered only the cost for each annual production lot as it was manufactured would therefore be insufficient to finance the government's minimum obligations under the multiyear contract.

Authorizing DoD to initiate a multiyear procurement program with unfunded cancellation liabilities provides contract authority—a form of budget authority—because it allows the department to incur that liability in advance of appropriations. CBO believes that the full cost of such liabilities should be recorded in the budget at the time they are incurred. The failure to request funding for cancellation liabilities may distort the resource allocation process by understating the cost of decisions made for the budget year and may require future Congresses to find the resources to pay for decisions made today. CBO plans to consult with the Committee on the Budget in both the House and the Senate on how to score future legislation that authorizes the use of multiyear procurement contracts with unfunded cancellation liabilities. Depending on the outcome of those consultations, CBO may score such future legislation with direct spending in the amount of the unfunded cancellation liability.

This bill would authorize the Department of Defense to enter multiyear procurement contracts for four programs: the Family of Medium Tactical Vehicles, the MH-60R helicopter, the MV-22 tiltrotor aircraft, and the F-22 fighter aircraft. Those contracts would require appropriations of $4.7 billion in 2007, and $28.6 billion over the 2007-2011 period. In total, $31.2 billion would be required to fully fund those contracts through completion.

Section 111 would authorize the Army to procure medium tactical vehicles over the 2008-2010 period at a total cost of $2.3 billion. A multiyear procurement contract for those vehicles that was authorized in the National Defense Authorization Act for Fiscal Year 2003 will be completed in 2007. The Army did not request authority for a multiyear procurement contract for medium tactical vehicles in the President's budget request for 2007 and thus has not estimated savings compared to the cost of procuring those vehicles through annual contracts. However, the Army's estimate of the cost to procure those vehicles during the

2008-2010 period are based on the price of those vehicles under the current multiyear contract.

Section 112 would authorize the Navy to procure 144 MH-60R helicopters over the 2007-2011 period at a total cost of $5.4 billion. The Navy has requested $916 million in 2007 for the 25 aircraft that would enter production in that year, and estimates that a multiyear procurement contract for MH-60R helicopters would cost $74 million less than a series of annual procurement contracts for those aircraft.

Section 125 would authorize the Navy to sign a contract to procure 185 V-22 tiltrotor aircraft over the 2008-2012 period at a total cost of $13.8 billion, although it has requested only $357 million in 2007 to buy certain components in economic quantities and to order items that have lengthy production times. The Navy estimates that a multiyear procurement contract for V-22 aircraft would cost $435 million less than a series of annual procurement contracts for those aircraft.

Section 134 would authorize the Air Force to sign a contract to procure 60 F-22 fighter aircraft over the 2007-2009 period at a total cost of $10.5 billion. The Air Force has requested the authority to budget and to pay for each annual production lot incrementally over a two-year period rather than obtaining appropriations for the full cost of those aircraft in the year production begins. It has requested nearly $2 billion in 2007 to fund production of certain components for the first 20 aircraft. Those aircraft would cost $3.7 billion in total. This bill would not authorize the Air Force to incrementally fund F-22 acquisition.[2]

The Air Force has not provided an estimate of the savings that would accrue from procuring F-22s through a multiyear procurement contract rather than a series of annual procurement contracts for those aircraft.

The Air Force did not request budget authority sufficient to cover its cancellation liability for its proposed multiyear procurement contract. Based on cancellation liabilities for other multiyear procurement programs, CBO estimates that cancellation liability for the F-22 multiyear contract could be between $500 million and $1.5 billion.

Force Structure. The bill would affect force structure by setting endstrength levels for the various military services.

2. For additional information see *Statement of Donald B. Marron, Acting Director, Congressional Budget Office on The Air Force's Proposal for Procuring F-22 Fighters*, before the Subcommittee on AirLand, Senate Committee on Armed Services, March 28, 2006.

Military Endstrength. Title IV would authorize active and reserve endstrength levels for 2007 and would set the minimum endstrength authorization in permanent law.

The bill would specifically authorize regular appropriations of $109.8 billion and additional appropriations for operations in Iraq and Afghanistan of $9.4 billion for costs of military pay and allowances in 2007.

Under title IV, the authorized endstrengths in 2007 for active-duty personnel and personnel in the selected reserves would total about 1,370,000 and 840,000, respectively. Of those selected reservists, about 74,000 would serve on active duty in support of the reserves. In total, active-duty endstrength would drop by over 34,000 and selected reserve endstrength would decrease by almost 6,000 when compared to levels authorized in 2006.

Section 401 would decrease the Navy's active-duty endstrength by 12,000 and decrease the Air Force's active-duty endstrength by 23,200. CBO estimates that the decrease in endstrength for the Navy and the Air Force combined would cut costs for salaries and other expenses by $2.3 billion in the first year and about $5 billion annually in subsequent years. Section 401 also would increase the active-duty endstrength of the Marine Corps relative to current law amounts by 1,000, which CBO estimates would increase costs by $39 million in the first year and about $80 million per year thereafter. CBO does not ascribe any costs or savings to changes in Army active-duty endstrength, because the endstrength specified in section 401 is the same as that specified for the Army under current law.

Section 403 would provide for additional Army and Marine Corps active-duty endstrength increases in fiscal years 2008 and 2009 if formally requested by the Secretary of Defense. Specifically, it would allow the Army and Marine Corps to increase active-duty endstrength by an additional 20,000 and 4,000 personnel respectively in each of those years. This authority is the same as that originally granted in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375). Because this authority already exists under current law, CBO does not estimate any additional costs or savings for this section.

Sections 411 and 412 would authorize the endstrengths for the reserve components, including those who serve on active duty in support of the reserves. Under this bill, the Selected Reserve would experience a drop in endstrength numbers of 5,700, mostly in the Army and Navy Reserve, while the endstrength for reservists who serve on active duty in support of the reserves would increase by almost 700. CBO estimates that the net result of implementing these provisions would be a decrease in costs for salaries and other expenses for selected reservists of $55 million in 2007 and about $115 million annually in subsequent years compared to the authorized endstrength levels for 2006.

Sections 413 and 414 would authorize the minimum endstrength level for military technicians, who are federal civilian personnel required to maintain membership in a selected reserve component as a condition of their employment. Because those personnel count against overall reserve component endstrengths, their associated drill pay and other military training expenses are already included in CBO's estimate of section 411. However, the reserve components would incur additional costs to maintain these personnel on their civilian support payrolls for periods when they are not training or on active duty. Under this bill, the Selected Reserve would increase their number of technicians by about 2,800 above current authorized levels. CBO estimates the increase in civilian salaries and expenses due to the additional personnel would be about $107 million in 2007 and about $225 million annually in subsequent years compared to minimum endstrength levels for technicians in 2006.

The bill would also authorize an endstrength of 10,000 servicemembers in 2007 for the Coast Guard Reserve. Because this authorization is the same as that under current law, CBO does not estimate any additional costs for this provision.

Compensation and Benefits. H.R. 5122 contains several provisions that would affect military compensation and benefits for uniformed personnel.

Pay Raises. Section 601 would raise basic pay for all individuals in the uniformed services by 2.7 percent, effective January 1, 2007. In addition, section 602 would provide for additional raises targeted to warrant officers and high ranking enlisted personnel that would be effective on April 1, 2007. CBO estimates that implementing these provisions would cost about $1.7 billion in 2007. Because the pay raises would be above those projected under current law (under current law a 2.2 percent across-the-board increase would go into effect on January 1, 2007), CBO estimates that the incremental costs associated with the larger pay raises would be about $440 million in 2007 and total $3.4 billion over the 2007-2011 period.

Expiring Bonuses and Allowances. Sections 611 through 614 would extend DoD's authority to pay certain bonuses and allowances to military personnel. Under current law, most of these authorities are scheduled to expire in December 2006, or three months into fiscal year 2007. The bill would extend these authorities for another year. Based on data provided by DoD, CBO estimates that the costs of these extensions would be as follows:

- Authorities to make special payments and give bonuses to certain health care professionals would cost $22 million in 2007 and $21 million in 2008;

- Special payments for aviators and personnel qualified to operate and maintain naval nuclear propulsion plants would cost $106 million in 2007 and $70 million in 2008;

- Retention and accession bonuses for officers and enlisted members with critical skills would cost $105 million in 2007 and $44 million in 2008;

- An extension of authorities for pay for reservists in high priority units and assignment incentive pay (which currently expires at the end of calendar year 2007) would cost $19 million in 2007 and $55 million in 2008;

- Payment of reenlistment bonuses for active-duty and reserve personnel would cost $886 million in 2007 and $347 million in 2008; and

- Enlistment bonuses for active-duty and reserve personnel would cost $389 million in 2007 and $255 million in 2008.

Most of these changes would result in additional, smaller costs in subsequent years because many payments are made in installments. In total, extending authority for the expiring bonus and allowances would cost about $1.5 billion in 2007 and $3.1 billion over five years.

Special Pay for Reserve Health Care Professionals. Section 616 would increase special pay for certain reserve health professionals from the current rate of $10,000 per year to a maximum rate of $25,000 per year. To qualify for the special pay, these health professionals must be designated as part of a critically short wartime specialty and agree to sign a one- to three-year enlistment contract. Based on information from DoD, CBO estimates that over 800 qualifying medical professionals will sign new enlistment contracts between October 1, 2006 and the first quarter of fiscal year 2008 (this special pay would require reauthorization each calendar year). Assuming each of these personnel signs a three-year enlistment agreement and receives anniversary payments each year, CBO estimates the total cost of this section would be $10 million in 2007 and $37 million over the 2007-2010 period.

Additional Special Pay for Dental Officers. Section 615 would eliminate the restriction that prevents dental officers from receiving additional special pay while they are in an intern or residency status. Based on data from DoD, CBO expects that implementing this section would allow approximately 380 additional dental officers each year to receive additional special pay, which currently averages about $11,000 a year. Thus, CBO estimates the cost of implementing this section would total $4 million in 2007 and $22 million over the 2007-2011 period.

Voluntary Separation Pay. Section 622 would enhance authorities related to the payment of voluntary separation pay. The Navy and Air Force currently plan to reduce their force levels by tens of thousands of personnel over the next several years. To achieve these goals, the services received authority in the National Defense Authorization Act for Fiscal Year 2006 (Public Law 109-163) to use voluntary separation pay as an incentive for officers with less than 12 years of service to leave the military. Under current law that authority will expire at the end of calendar year 2008. Section 622 would extend that authority through the end of calendar year 2009 (or the first quarter of fiscal year 2010). Based on information from the services, CBO estimates an additional 2,500 officers would be offered voluntary separation pay due to this extension with an average payment of almost $100,000 per servicemember. The total cost of the one-year extension would be $181 million in 2009 and $241 million over the 2009-2010 period, CBO estimates.

In addition to extending current authorities, section 622 would expand those authorities by eliminating the current restriction that voluntary separation pay be given only to officers with less than 12 years of service. Although the services indicate this authority would still be used primarily for officers, CBO estimates that about 2,000 additional personnel would receive payments under this expanded authority through 2010. CBO estimates the average payment to these members would be about $225,000, which would be higher than that for officers with less than 12 years of service because the payment formula is dependent on both rank and years of service. The total cost of eliminating this restriction (the expanded authority would still expire in the first quarter of 2010) would be $73 million in 2007 and $476 million over the 2007-2010 period, CBO estimates. Thus, the total cost of implementing section 622 would be $73 million in 2007 and $717 million over the 2007-2010 period.

Transportation of Vehicles. Section 632 would allow military servicemembers accompanied by dependents of driving age to ship an additional privately owned vehicle at government expense to nonforeign duty stations outside the continental United States as part of a permanent change of station move. Duty stations in Guam, Alaska, and Hawaii would be the primary destinations affected by this provision. Based on information from DoD, CBO estimates that approximately 25,000 vehicles are transported back and forth between these locations and the continental United States annually, at an average cost per shipment of about $3,200 per vehicle. Based on the percentage of military personnel with dependents, CBO estimates that enacting this section would result in an additional 10,000 vehicle shipments per year. Thus, this section would increase costs to DoD by $30 million in 2007 and $174 million over the 2007-2011 period, CBO estimates.

Servicemembers' Group Life Insurance (SGLI) Premiums. Section 607 would provide an additional allowance to cover the full cost of premiums to members of the Armed Forces serving in the theater of operations for Operation Enduring Freedom (OEF) or Operation Iraqi Freedom (OIF) who are insured under the SGLI program.

Under current law, DoD is required to pay the cost of premium payments for up to $150,000 of SGLI coverage for servicemembers serving in an operation or area that the Secretary designates as a combat operation or a zone of combat. Section 607 would increase the maximum amount of SGLI coverage paid for by DoD to $400,000.

According to the Department of Veterans Affairs (VA)—the administrator of the SGLI program—99 percent of servicemembers participate in SGLI and take out the maximum coverage of $400,000, at a premium rate of 6.5 cents per $1,000 of coverage. In 2007, a servicemember serving in OEF and OIF will pay $195 a year for the remaining $250,000 of coverage not currently paid for by DoD. For this estimate, CBO assumes that force levels in theater for OEF and OIF will remain at about 200,000 through the end of fiscal year 2007, and then decline gradually to about 50,000 in 2011. Assuming the premium rates remain at the 2006 level, CBO estimates that implementing this provision would cost $31 million in 2007 and $90 million over the 2007-2011 period, assuming appropriation of the necessary amounts.

Other Provisions. In addition to the provisions discussed above, CBO estimates other provisions in the bill would increase both military and civilian compensation and benefits by $5 million in 2007 and $28 million over the 2007-2011 period:

- Section 524 would expand service academy exchange programs;

- Section 604 would authorize a second basic allowance for housing for unmarried reserve members activated as part of a contingency operation;

- Section 605 would allow the spouses of members that die on active duty to temporarily receive that member's housing allowance, even if the spouse is a member of a uniformed service;

- Section 618 would increase the maximum amount of the nuclear career accession bonus to $30,000;

- Section 619 would increase the incentive bonus for transfer between armed forces to $10,000;

- Section 621 would authorize a pilot program for a recruitment bonus for critical health care specialties;

- Section 1101 would increase the authorized number of senior executive employees in defense intelligence from 594 to 644; and

- Section 1104 would authorize a death gratuity for family members of civilian employees killed in terrorist acts or during service in a contingency operation.

Defense Health Program. Title VII contains a number of provisions that would affect DoD health care benefits, with the most significant provision expanding benefits for the Selected Reserve.

TRICARE Reserve Select. Section 709 would change premiums and enrollment criteria for TRICARE Reserve Select (TRS), an insurance program offered by DOD to all members of the Selected Reserve. This section would lower the premiums for many reservists and remove a requirement that reservists who enroll in TRS sign an agreement to extend their enrollment in the Selected Reserve. The bill would require DoD to implement these changes not later than October 1, 2007. Assuming that the changes would be implemented on that date, CBO estimates that section 709 would cost $336 million in 2008 and $2.8 billion over the 2008-2011 period, assuming appropriation of the necessary amounts.

Under current law, reservists on active duty can participate in TRICARE without paying premiums. Reservists not on active duty can enroll in TRICARE by signing an agreement to extend their enlistment in the Selected Reserve and by paying a premium. Those premiums are set according to the following criteria:

- Reservists who have served on active duty in a contingency operation for 90 days or more pay premiums equal to 28 percent of the actuarial cost of providing the TRS insurance (this part of the program has already been implemented);

- Reservists who are not eligible for employer-sponsored insurance, including the self-employed, or who receive unemployment compensation will pay 50 percent of the actuarial cost beginning on October 1, 2006; and

- Reservists who do not meet any of the above criteria will pay 85 percent of the actuarial cost beginning on October 1, 2006.

Under section 709, any member of the Selected Reserve who is in an inactive status (i.e., not on active duty) and not eligible to participate in the Federal Employees Health Benefits Program would be allowed to enroll in and use TRICARE after paying a premium equal to 28 percent of the total cost of providing the insurance.

Based on data from DoD, CBO estimates that this provision would apply to about 600,000 reservists (on average) at any given time during the 2008-2011 period. Using information from published studies and papers on enrollment in health insurance plans, and comparing the estimated premiums for TRS with the premiums in the private sector, CBO estimates that about 30 percent of reservists with dependents and about 25 percent of reservists without dependents would ultimately enroll in TRICARE under this bill. On that basis, we project that enrollment resulting from this provision would gradually increase over the first three years of the program and level off at about 170,000 reservists, of which CBO estimates about 120,000 would be new enrollees in TRICARE. The other 50,000 are reservists that CBO projects would have enrolled in TRICARE under current law, though some would have had to pay higher premiums than would be the case under section 709.

Based on data from DoD, CBO estimates that in 2008 the average cost to DoD for those reservists who would purchase self-only coverage would be about $4,000 and the average cost to DoD of self-and-family coverage would be about $12,600. Enrolled reservists would pay about $1,100 for self-only coverage and $3,500 for self-and-family coverage.

Prohibition on Employers Encouraging Military Retirees to use TRICARE. Section 710 would extend to the TRICARE program a Medicare prohibition that bans employers from encouraging their employees to forgo enrollment in a group health plan and to use the government-sponsored program instead. Currently, some private-sector companies and state and local governments are encouraging those employees who are also military retirees under age 65 to use TRICARE for health care coverage instead of the insurance plan that is sponsored by the employer. Most of these employers are offering to purchase a TRICARE supplemental policy for the employee and any eligible family members. Such supplemental insurance generally covers all deductibles, copayments, and other TRICARE cost-sharing amounts. These supplemental insurance policies cost as little as $60 per month for single coverage while it can cost employers more than $5,500 per year to provide full health insurance coverage for an employee. DoD estimates that it will cost about $3,000 in 2007 to provide health care for a person under its TRICARE Standard program.

Based on data from DoD about the number of retirees under age 65 and data from surveys and studies about the percentage of retirees currently being offered incentives to forgo employer-sponsored insurance, CBO estimates that about 50,000 people a year are being diverted from employer-sponsored plans to TRICARE. Thus, under section 710, CBO estimated 50,000 retirees and their families would stop using TRICARE in favor of an employer-sponsored plan, for a savings to DoD of about $247 million in 2007 and $2 billion over the 2007-2011 period.

TRICARE Pharmacy Copayments. Section 731 would change the cost-sharing amounts that beneficiaries will pay for pharmaceutical drugs in 2007. All TRICARE participants can have prescriptions filled in one of three ways, through the mail-order program (TMOP), at military treatment facilities (MTFs), or at retail pharmacies. Under current DoD plans, beneficiaries will be charged copayments of $5 for generic drugs and $15 for brand-name drugs at retail pharmacies and $9 for brand-name drugs obtained through the TMOP. There would be no copayment for generic drugs through the TMOP, nor for drugs obtained at MTFs. Those copayment amounts apply to active-duty dependents and all retirees and their dependents. Section 731 would increase the retail pharmacy copayment in 2007 to $6 for generic drugs and $16 for brand-name drugs and would eliminate the copayment for brand-name drugs obtained through the TMOP. Health care costs for active-duty dependents and retirees under age 65 and their dependents are discretionary costs and are covered in this part of the estimate. Retirees and their dependents age 65 and older are covered under TRICARE for Life, which is classified in the budget as a mandatory (i.e., direct spending) program. CBO's evaluation of the pharmacy costs for that group of retirees is discussed later in the "Direct Spending" section.

Based on data provided by DoD, CBO estimates that in 2007 almost 60 million prescriptions for a one-month supply of a drug will be filled through the three outlets for active-duty dependents and retirees and their dependents under age 65. Active-duty dependents have the vast majority of their prescriptions filled at MTFs. Retirees and dependents under age 65 have about half of their prescriptions filled at MTFs and more than one-third filled at retail pharmacies. Under the copayment levels that would be authorized by this section, and based on analysis by DoD, CBO estimates that about 3 percent of prescriptions that would have been filled at retail pharmacies would instead be filled through the TMOP, as beneficiaries choose to take advantage of the mail-order option with no copayments. CBO estimates that while DoD would see decreased collections of about $10 million in 2007 from the elimination of brand-name drug copayments for prescriptions filled through the TMOP, it would receive increased collections of about $21 million from higher retail pharmacy copayments.

CBO also estimates that under section 731 about 3 percent of prescriptions that would have been filled at MTFs would instead be filled through the TMOP as beneficiaries opt to obtain drugs at the same copayment but without having to travel to military installations. Transferring these purchases from the other two outlets to TMOP would also result in cost changes for DoD in addition to the changes in collections from the copayments. While it costs DoD about $20 to fill each generic prescription at MTFs, retail pharmacies and through the TMOP, the cost for DoD to provide brand-name drugs varies, depending on the population and how the drug is dispensed. Though retirees and their dependents use more expensive drugs than do active-duty dependents, it is cheaper for DoD to fill the prescription for both groups through the TMOP than through the retail pharmacy and cheaper still to do it through an MTF, which dispenses the drugs directly to beneficiaries. Thus, the cost to DoD decreases when beneficiaries switch from retail pharmacies to the mail-order program but the cost increases when they switch to mail-order from MTFs. CBO estimates that the savings from transferring prescriptions from retail pharmacies to the TMOP would be about $5 million in 2007 and that the costs would be about $6 million for the shift from MTFs to the TMOP.

In total, CBO estimates that implementing section 731 would provide DoD with discretionary savings of about $9 million in 2007 and $33 million over the 2007-2011 period. While the cost-sharing requirements of this section would expire on December 31, 2007, CBO assumes that the copayment amounts would remain unchanged after that date.

Prohibition on TRICARE Cost-Sharing Increases. Section 704 would prohibit increases of certain cost-sharing requirements for TRICARE beneficiaries through December 31, 2007. CBO estimates that implementing this section would increase costs by $6 million in 2007 and $9 million over the 2007-2011 time period.

Under current law, TRS premiums are adjusted on January 1 of each year to maintain the current ratio between the amount of the premium and the actuarial cost of providing health care. Section 704 would prohibit an increase for calendar year 2007.

Based on data provided by DoD, CBO estimates that, under current law, almost 30,000 plans for coverage under TRS will be purchased in 2007. For 2006, premiums are $972 per year for single coverage and $3,036 per year for family plans. Assuming a 7 percent increase in premiums next year, this prohibition would reduce TRS premium payments by $4 million in 2007 and $3 million in 2008. ($2 million of the costs in fiscal year 2008 comes from applying the prohibition on increasing premiums in calendar year 2007 to the proposal in section 709, which, by lowering premiums for many members of the Selected Reserve would increase TRS enrollment.)

Section 704 would also prohibit an increase in the TRICARE cost-sharing payment for hospital stays. Under current law, retirees and their dependents under age 65 must pay for 25 percent of the charges for inpatient care. For 2006, the average cost-sharing amount is $535 per day. Assuming a 4 percent increase for inpatient care charges and about 76,000 days of inpatient care for which this cost-sharing amount would apply, CBO estimates that DoD would lose $2 million in 2007 as the result of this prohibition.

In addition, section 704 would prohibit DoD from increasing fees or deductibles for TRICARE Standard, a fee-for-service plan, or TRICARE Prime, an HMO option. DoD does not currently have the authority to raise cost-sharing amounts for TRICARE Standard. While it does have the authority to increase cost-sharing amounts for TRICARE Prime, there is no indication that it is willing to do so without the ability to increase cost-sharing amounts for TRICARE Standard at the same time. Therefore, CBO believes there is no effect on the federal budget for this particular prohibition.

Other Provisions. The bill contains various other provisions that would affect costs in the 2007-2011 period.

Shipbuilding Industrial Base Improvement Program. Section 1014 would create a new program, the Shipbuilding Industrial Base Improvement Program, under which the Secretary of the Navy would be authorized to provide grants and loan guarantees to qualifying shipyards. Assuming appropriation of the necessary amounts, CBO estimates that implementing this provision would cost about $600 million over the 2007-2011 period.

Under the program, the Navy would be authorized to make grants to qualified shipyards to design technologies and processes that would improve the efficiency and international competitiveness of U.S. shipyards. The bill would authorize the appropriation of $50 million for this purpose in 2007. CBO estimates that the cost of the grants would total $250 million over the 2007-2011 period, assuming appropriation of the necessary amounts.

The program also would authorize the Navy to guarantee loans to enable shipyards to purchase technologies, processes, and infrastructure that would improve their productivity and lower their operating costs. This authority would expire on September 30, 2011. The program would allow the Navy to guarantee up to 87.5 percent of the loan principal, for a term of up to 30 years. The provision sets a limit of $1 billion on the total amount of loans that may be guaranteed. The loan guarantees would be limited to shipyards that derive less than 40 percent of their revenue from the federal government over the three years prior to the year that the loan would be obtained.

Under credit reform procedures, funds must be appropriated in advance to cover the subsidy cost of such loan guarantees, measured on a present-value basis. The costs of such subsidies could vary widely depending on the terms of the contracts and the financial and technical risk associated with the different types of projects. In addition, anticipated revenues from future U.S. Government contracts may not be considered in calculating the subsidy cost. According to Standard and Poor's, the cumulative default risk for projects rated as speculative investments can range from about 20 percent to almost 60 percent, depending on a project's cash flows and contractual terms. Subsidy costs are also affected by amounts recovered by the government in the event of default.

For this estimate, CBO assumes that the Navy would guarantee investments totaling $1 billion over the next five years. CBO estimates that loan guarantees under this section would involve a 40 percent subsidy (on average), assuming only modest recoveries in the absence of any statutory requirements, and no revenues from the U.S. Government. CBO estimates that implementing this provision would cost $350 million over the 2007-2011 period, assuming appropriation of the necessary amounts.

Security Contracts. Section 323 would extend through the end of fiscal year 2008 the authority for the DoD to hire contractors to provide security at military installations or facilities. The National Defense Authorization Act for Fiscal Year 2003 granted the

Secretary of Defense temporary authority to waive the prohibition against the contractor performance of security guard functions under section 2465 (a) of title 10, United States Code. This authority expires on September 30, 2007. Based upon information from DoD and GAO, CBO estimates that, given this authority, DoD would contract for approximately 4,500 security guards in 2008 at a total cost of about $278 million.

Defense Acquisition Challenge Program. Section 213 would eliminate the September 31, 2007, sunset date for the Defense Acquisition Challenge Program. This program is responsible for reviewing and testing proposals to improve the performance of current DoD acquisition programs. Based upon information from DoD, CBO estimates that implementing this provision would cost $30 million in 2008 and $125 million over the 2008-2011 period, assuming appropriation of the necessary amounts.

Matters Relating to Other Nations. Section 1022 would increase, from $40 million to $60 million, the maximum amount authorized for counter-drug assistance in the years 2007 and 2008. It also would make six new countries—Azerbaijan, Kazakhstan, Kyrgyzatan, Guatemala, Belize, and Panama—eligible for that support. Based on information from DoD, CBO estimates that the department would likely use all available funds.

Section 1203 would raise the ceiling on funding for humanitarian demining assistance related to the detection and removal of land mines from $5 million to $10 million. Section 1204 would authorize an additional $5 million to pay for foreign officials to attend training programs conducted under the Regional Defense Counterterrorism Fellowship Program ($20 million is currently authorized for that purpose). Based on information from DoD, CBO estimates that the department would likely use all available funds for these two programs.

Transportation of Remains. Section 563 would require that aircraft owned by or contracted to DoD be used whenever the remains of servicemembers who died in a combat theater of operations are to be transported by air from the mortuary facility at Dover Air Force Base. This provision also requires that the sole purpose of such flights be the transportation of those remains. Currently, such remains are generally flown on multiple-purpose commercial flights. Based upon information from DoD, CBO estimates that implementing this provision would cost $14 million in 2007 and $45 million over the 2007-2011 period, assuming appropriation of the necessary amounts.

Transition Assistance. Section 588 would require all active-duty military members that separate from the services to participate in the Department of Labor's Transition Assistance Program. It would also expand the program to include those reservists demobilized after more than 30 days on active duty. Current participation in the program is not mandatory, although many do attend. Based on information from the Department of Labor, CBO estimates an additional 50,000 regular active-duty personnel would attend these workshops each year due to these new requirements. In addition, a large number of reservists would attend the sessions. Because of the ongoing Global War on Terrorism (GWOT), CBO estimates that about 180,000 reservists are demobilized each year. Most of these personnel return to previous employment or academic studies that, under this section, would exempt them from having to take part in the program. However, reservists who are unemployed would be required to attend, and some others may choose to attend. For this estimate, CBO assumes that about a quarter, or 45,000, of these reservists would take part in the program.

Based on information from the Department of Labor, CBO estimates the average cost for each participant is about $95, so that the total cost of carrying out the additional requirements in this section would be about $9 million per year. Costs would be lower in the first year due to the time needed to expand the program and would decrease in later years as demobilizations related to the GWOT decrease, so that the total cost would be $5 million in 2007 and $37 million over the 2007-2011 period, CBO estimates.

Cold War Medal. Section 552 would require the Secretary of Defense to issue a Cold War Victory Medal to former military members who served between the years 1945 and 1991. The medal would be issued upon application by former members or their surviving relatives. Based on data from DoD, CBO estimates that between 20 million and 30 million people would be eligible for this medal. This same population is currently eligible to apply for a Cold War Recognition Certificate, which was first issued by DoD in 1998. To date, 1.1 million people have applied for, and received, this certificate. Because a medal might seem more attractive, CBO estimates that a higher number of applications would be made for the new award, over 3 million. Based on information from DoD, CBO estimates that minting and administrative costs for the program would average about $10 per medal, which translates into a total cost of $32 million over the 2007-2011 period. CBO estimates costs would be relatively low in the first year, about $2 million, due to the time needed to design the medal and to set up application and administrative procedures. However, CBO expects costs would increase to $16 million in 2008 because many of the people that applied for the Cold War Recognition Certificate would immediately apply for the new medal.

Dependent's Education. Section 572 would authorize the Secretary of Defense to enroll the dependents of foreign military and civilian employees assigned to the Supreme Headquarters Allied Powers Europe (SHAPE) in the DoD schools in Mons, Belgium, on a space-required, tuition-free basis. Currently these dependents can be enrolled on a space available, tuition-free basis or a tuition-paying basis. Due to this restriction DoD cannot increase the number teachers in the SHAPE schools to accommodate the enrollment of foreign dependents admitted on a tuition-free basis. This provision would allow DoD to add teachers to accommodate these students. Based upon information from DoD, CBO estimates that implementing this provision would cost $6 million in 2007 and $30 million over the 2007-2011 period, assuming appropriation of the necessary amounts.

Postage Benefit for Servicemembers in Iraq and Afghanistan. Sections 575 through 577 would require DoD to pay for the postage and handling costs to ship one package per month from friends and family in the United States to servicemembers in Iraq and Afghanistan. This requirement would become effective upon the issuance of regulations by the Secretary of Defense, which the bill would require within 30 days of enactment. The postage benefit would be in place for one year.

CBO estimates that about 145,000 servicemembers in Iraq, Afghanistan, and military hospitals would be eligible for this benefit and that nearly all of these individuals and their friends and families (at least 90 percent) would participate. Under this provision, the weight limit for each parcel would be 15 pounds, and based on rates that the United States Postal Service charges for ground parcels and other mail sent to U.S. servicemembers, CBO estimates that each monthly mailing would cost, on average, about $11. Thus, CBO estimates that postage for the mailing privilege offered by the bill would cost about $17 million over the 2007-2008 period.

In addition to the cost of postage, DoD would incur costs for the transportation and handling of the parcels to the Central Command theater of operations. Since CBO expects that most friends and family members would use the full 15-pound allotment, CBO estimates that the amount of mail sent free of postage under these sections would total in excess of 10,000 tons. CBO expects, however, that about 75 percent of this mail would be sent regardless of this benefit, so that the total amount of additional mail sent overseas due to this provision would be about 2,500 tons. Based on information from DoD and the Government Accountability Office (GAO), CBO estimates that the cost to transport and distribute mail to Iraq and Afghanistan averages about $5,000 per ton. Therefore, CBO estimates that implementing these sections would increase DoD's transportation, handling, and administrative costs by $13 million over the 2007-2008 period. Including both postage and transportation, CBO estimates the total cost of implementing these sections would be $27 million in 2007 and $30 million over the 2007-2008 period.

Direct Spending and Revenues

The bill contains provisions that would both increase and decrease direct spending, primarily by expanding DoD's ability to use third-party financing for the construction of military housing and through changes to the TRICARE program. H.R. 5122 also would increase receipts from asset sales, as discussed in the following section, and would reduce federal revenues slightly, beginning in 2010. We estimate that those provisions combined would increase direct spending (excluding asset sales) by about $165 million over the 2007-2011 period and by $280 million over the 2007-2016 period (see Table 4).

Pilot Projects for Acquisition or Construction of Military Unaccompanied Housing. Section 2807 would expand the Navy's authority to use third-party financing to acquire housing for unaccompanied military personnel by increasing the number of pilot projects authorized from three to six and by extending the expiration of that authority from September 30, 2007, to September 30, 2011.

Currently, DoD is authorized to use direct loans, loan guarantees, long-term outleases, rental guarantees, barter, direct government investment, and other financial arrangements to renovate, build, and operate military housing in concert with housing developers. DoD typically enters into a series of long-term agreements with a developer who establishes a limited liability company (LLC) or other special-purpose entity, specifically for the purpose of renovating, constructing, operating, and maintaining the military housing at the project. DoD contributes some combination of land, existing housing, and cash to the partnership or LLC. On behalf of the government, the LLC then borrows additional money for the project from a third party, such as a commercial mortgage corporation, to finance construction. In other words, the third-party financier acts as an intermediary by borrowing money—instead of the U.S. Treasury—to finance a governmental activity. The value of the assets contributed by the government serve as collateral for the borrowing and the future rent payments (over a period of 30 to 50 years) from military personnel provide a reliable source of income for debt service.

CBO believes that acquiring housing for military personnel in that manner is a governmental activity with a private-sector financial intermediary who serves as an instrument of the federal government. In CBO's view, ventures that borrow funds to construct or refurbish military housing should be treated as governmental and their investments should be recorded up front, as borrowing authority—a form of budget authority. Amounts expended by these public-private ventures should be recorded in the budget as outlays at the time they occur.

TABLE 4. ESTIMATED IMPACT OF H.R. 5122 ON DIRECT SPENDING AND REVENUES [a]

	By Fiscal Year, in Millions of Dollars									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CHANGES IN DIRECT SPENDING (EXCLUDING ASSET SALES)										
Pilot Projects for Military Housing										
Estimated Budget Authority	0	0	30	60	30	0	0	0	0	0
Estimated Outlays	0	0	4	22	41	34	14	3	1	0
Maximum Term of Leases for Overseas Facilities										
Estimated Budget Authority	1	2	5	5	5	5	5	5	5	5
Estimated Outlays	*	1	3	5	5	5	5	5	5	5
TRICARE Pharmacy Program										
Estimated Budget Authority	5	9	11	11	11	11	11	11	11	11
Estimated Outlays	5	9	11	11	11	11	11	11	11	11
TRICARE Reserve Select										
Estimated Budget Authority	0	-3	-4	-4	-4	-4	-4	-4	-5	-5
Estimated Outlays	0	-3	-4	-4	-4	-4	-4	-4	-5	-5
Retroactive Payment of Additional Death Gratuity										
Estimated Budget Authority	45	0	0	0	0	0	0	0	0	0
Estimated Outlays	45	0	0	0	0	0	0	0	0	0
Death Gratuity for Civilians										
Estimated Budget Authority	2	0	0	0	0	0	0	0	0	0
Estimated Outlays	2	0	0	0	0	0	0	0	0	0
Annuities for Disabled Retirees										
Estimated Budget Authority	*	*	*	1	1	1	1	1	1	2
Estimated Outlays	*	*	*	1	1	1	1	1	1	2
Debt Forgiveness										
Estimated Budget Authority	0	1	1	*	0	0	0	0	0	0
Estimated Outlays	0	1	1	*	0	0	0	0	0	0
Subtotal										
Estimated Budget Authority	53	9	44	73	43	13	13	13	12	13
Estimated Outlays	52	8	15	35	54	47	27	16	13	13
ASSET SALES										
National Defense Stockpile										
Estimated Budget Authority	-40	-35	-35	-35	-30	-35	-35	-35	0	0
Estimated Outlays	-40	-35	-35	-35	-30	-35	-35	-35	0	0

(Continued)

TABLE 4. CONTINUED

	By Fiscal Year, in Millions of Dollars									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
TOTAL CHANGES IN DIRECT SPENDING										
Total - Changes in Direct Spending										
Estimated Budget Authority	13	-26	9	38	13	-22	-22	-22	12	13
Estimated Outlays	12	-27	-20	0	24	12	-8	-19	13	13
CHANGES IN REVENUES										
TRICARE for Reservists	0	0	0	-1	-2	-3	-3	-4	-4	-4

Memorandum:

Section 581 would increase direct spending if H.R. 5122 is enacted after the Department of Defense Appropriations Act, 2007.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Retirement Accrual Payments										
Estimated Budget Authority	450	0	0	0	0	0	0	0	0	0
Estimated Outlays	429	19	1	0	0	0	0	0	0	0

NOTE: * = less than $500,000.

a. Five- and 10-year totals stated in the text differ slightly from the sum of the annual costs shown here because of rounding.

Title 10, United States Code, section 2881a provides authority for the Navy to pursue three pilot projects to acquire housing for unaccompanied sailors. Under that authority, the Navy can make rental payments directly to the housing developer in excess of the partial basic allowance for housing paid to personnel living in government quarters. Based on information from the Navy, CBO estimates that only two housing projects will be acquired before the current expiration date of September 30, 2007. CBO estimates that extending the deadline until the end of fiscal year 2011, and increasing the number of authorized projects to six, would allow the Navy to acquire four more housing projects than it could acquire under current law. CBO estimates that the Navy would acquire those additional projects over the 2009-2011 period.

Based on information from the Navy, CBO estimates that this additional construction activity would have no cost in 2007 or 2008, but would increase outlays by $67 million over the 2009-2011 period and by $118 million over the 2009-2016 period.

Extending the Maximum Lease Term for Overseas Facilities. DoD is authorized to lease overseas facilities other than family housing units for a maximum term of five years. Section 2823 would extend that maximum lease term to 10 years.

According to information provided by DoD, the facilities that it leases overseas usually require costly modifications to meet government requirements. The lessor amortizes the cost of those modifications over the term of the lease. Because DoD becomes obligated to pay the full cost of those modifications when it enters those leases, the costs should be recorded in the budget in the year the lease is signed, rather than amortized over the lease term. The Office of Management and Budget permits DoD to incur those obligations if it has appropriations sufficient to cover the cost of the lease in the first year, thus allowing the department to incur that obligation in advance of appropriations. CBO believes that this practice is inconsistent with governmentwide accounting principles.

Because DoD could spread the cost of the initial modifications over a larger number of years, extending the maximum lease period would result in smaller annual lease payments. Therefore, CBO expects that DoD would enter into more leases if the maximum lease term was increased from five to 10 years. Because the department would be able to sign lease contracts and incur the additional obligations without having an appropriation for the full amount of that obligation, this bill would provide contract authority—a form of budget authority. CBO estimates that such spending on overseas leases will not increase significantly in 2007 but would cost $14 million over the 2007-2011 period and $39 million over the 2007-2016 period.

TRICARE Pharmacy Copayments. Section 731 would change the cost-sharing amounts that beneficiaries will pay for pharmaceutical drugs in 2007. It would increase the retail pharmacy copayment in 2007 to $6 for generic drugs and $16 for brand-name drugs and would eliminate the copayment for brand-name drugs obtained through the mail-order program. Retirees and their dependents age 65 and older are covered under TRICARE for Life, which is classified in the budget as a mandatory (i.e., direct spending) program, and are covered under this part of the estimate. Health care costs for active-duty dependents and retirees under age 65 and their dependents are discretionary costs. CBO's evaluation of the pharmacy costs for that group of beneficiaries, along with its more detailed description and analysis of the changes to the program, is discussed under the "Spending Subject to Appropriation" section.

CBO estimates that the budget impact of retirees and their dependents age 65 and older switching from retail pharmacies to the TMOP would be an increase in spending of $28 million in 2007 from the elimination of brand-name drug copayments for prescriptions filled through the TMOP and a reduction in spending of $23 million from higher retail pharmacy copayments.

Transferring prescriptions to TMOP would also result in cost changes for DoD in addition to the changes in direct spending from copayments because it is cheaper to fill the prescription through the TMOP than through retail pharmacies and cheaper still through military treatment facilities, which dispense the drugs directly to the beneficiaries. Thus, CBO estimates that the savings from transferring prescriptions from retail pharmacies to the TMOP would be about $4 million in 2007 and that the costs would also be about $4 million for the shift from MTFs to the TMOP.

In total, CBO estimates that implementing section 731 would increase direct spending by about $5 million in 2007, $47 million over the 2007-2011 period, and $102 million over the 2007-2016 period. While the cost-sharing requirements of this section would expire on December 31, 2007, CBO assumes that the copayment amounts would remain unchanged after that date.

TRICARE Reserve Select. Under current law, reservists who receive unemployment compensation can participate in TRICARE Reserve Select (the DoD insurance program offered to members of the Selected Reserve) by paying premiums that are lower than those paid by many other reservists. Section 709 would allow all reservists to enroll in TRICARE Reserve Select and pay the same premium regardless of unemployment status, beginning in 2008. Because section 709 removes the direct link between receiving unemployment compensation and being eligible to participate in TRICARE Reserve Select at low premiums, CBO assumes that some reservists will remain on unemployment insurance for a shorter period. CBO estimates that enacting section 709 would reduce the average benefit period for reservists by about one week at an average savings of about $275 per person in 2008. Based on CBO's projections of national unemployment trends, CBO estimates that about 13,000 unemployed reservists will use TRICARE Reserve Select in 2008 and beyond. Thus, CBO estimates that, under section 709, spending for unemployment compensation will decrease by $3 million in 2008, $15 million over the 2008-2011 period, and $37 million over the 2008-2016 period.

States' unemployment tax revenues are recorded as income to the federal government's Unemployment Trust Fund. Because states attempt to maintain sufficient balances in their unemployment insurance accounts while keeping tax rates as low as possible, changes in outlays for benefits translate into changes in revenues. Thus, CBO estimates that under section 709, revenues would decline by $1 million in 2010, $3 million over the 2010-2011 period, and $21 million over the 2010-2016 period.

Death Gratuities. Section 642 and 1104 would authorize payments to the survivors of certain military and civilian personnel. In both instances, the authorities would apply to deaths that occurred prior to the assumed enactment date of this bill (October 1, 2006). CBO considers these payments to be direct spending because the relatives of these victims would be immediately entitled to claim these gratuities upon enactment of this bill.

Section 642 would allow the relatives of certain military personnel who died between May 11, 2005, and August 31, 2005, to receive an additional death gratuity of $150,000. Section 664 of the National Defense Authorization Act for Fiscal Year 2006 (Public Law 109-163) authorized a gratuity of $150,000 to the families of servicemembers who died of non-combat wounds between October 7, 2001, and May 11, 2005, in recognition of the fact that these families were unable to benefit from the enhanced Servicemembers' Group Life Insurance that was enacted as part of the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005 (Public Law 109-13). Although the change to SGLI was enacted on May 11, 2005, that legislation set the effective date for the change as September 1, 2005. This inadvertently created a three-and-a-half month window in which the families of some members who died of non-combat wounds could neither collect the additional $150,000 nor benefit from the enhanced SGLI. (Family of servicemembers that died of combat wounds were able to collect the additional $150,000 until September 1, 2005, as a result of language in Public Law 109-13.) Based on data from DoD, CBO estimates that closing this gap would make 300 additional families eligible for the $150,000 gratuity, for a total cost of $45 million in 2007.

Section 1104 would authorize payments of a gratuity of $100,000 to the families of federal civilian workers killed either while serving with the Armed Forces or in terrorist acts. The benefit would be retroactive to deaths that occurred on or after October 7, 2001. Based on information from the Departments of Defense and State, CBO estimates that the families of about 20 federal employees would qualify for this benefit by the time this bill is enacted, creating a retroactive cost of about $2 million in 2007. In addition, there would be costs related to deaths that occur after the enactment of this bill, but CBO considers these costs to be discretionary because they would be paid from future appropriations.

Annuities for Disabled Retirees. Section 643 would alter the method of calculating retirement annuities for reservists whose disabilities resulted from an injury for which the member was awarded the Purple Heart. Under this section, eligible reservists would have their annuities for permanent or temporary disability retirement calculated based on a more generous formula that could potentially double their annuity amount. However, servicemembers receiving a disability retirement may also base their retirement calculation on their rated degree of disability. Based on data from DoD, CBO estimates that, even under the more generous calculation proposed in section 643, most eligible reservists would receive a larger annuity by basing it on the degree of disability.

Based on data from DoD, CBO estimates that less than 30 retirees a year would have their retirement annuities increased under section 643, by an average amount of about $6,000. Some of these retirees would be permanently retired and others would improve and be removed from the temporary retirement list. Assuming a similar number of reservists would be affected in subsequent years, and that their annuities would increase by an annual cost-of-living adjustment, CBO estimates that enacting this section would increase direct spending for military retirement annuities by less than $500,000 in 2007, by $2 million over the 2007-2011 period, and by $9 million over the 2007-2016 period.

Debt Forgiveness. Section 663 extends the authority of the service secretaries to forgive debts incurred by officers and members of the National Guard and Reserve serving on active duty. Prior to 2006, debt forgiveness could be offered to enlisted members only. The enhancement of this authority to include officers and reserve component members was enacted as part of the National Defense Authorization Act for Fiscal Year 2006 (Public Law 109-163), but that act made these changes effective only through December 31, 2007. Section 663 would extend this sunset date to December 31, 2009. Because some of these debts would have been paid to the Treasury, this extended authority would result in a loss of offsetting receipts.

Based on data from the Department of Defense, CBO estimates an additional 1,500 servicemembers would have debts forgiven each year under the extended authority and that the average amount of each debt forgiven would be about $1,000. CBO estimates the amount that would have been repaid to the Treasury to be about $1 million a year. Thus, the increase in direct spending from extending these authorities would total about $2 million over fiscal years 2008 through 2010.

Retirement Accrual Payments. Section 581 would reduce the amount DoD must contribute to the military retirement fund on behalf of activated reserve members. Under current law, DoD must contribute to the fund an amount equal to a percentage of a servicemember's basic pay to cover the costs of future retirement benefits. For fiscal year 2007, DoD estimates the contribution rates will be 26.4 percent for full-time active duty personnel and 16.7 percent for part-time reserves. The contribution rate for part-time reserve members is lower because they must wait until age 60 before they can receive payments from the fund, and thus will, in general, receive a less costly retirement package. DoD's interpretation of current law is that when a reservist is called to active duty, DoD must make a contribution to the retirement fund for these personnel at the higher full-time rate. Section 581 would change this policy by allowing DoD to make contributions for these personnel at the lower part-time rate.

Payments to the retirement fund are made from discretionary appropriations, and shown as an intragovernmental transfer, with discretionary outlays shown against the military personnel accounts and offsetting receipts credited to the military retirement fund. If section 581 is enacted after the enactment of the fiscal year 2007 military personnel appropriations, however, it would represent a change in the purpose of funds already appropriated. The amount transferred to the retirement accounts would decrease, resulting in a reduction in offsetting receipts (i.e., an increase in direct spending).

Based on the number of reserve members currently on active duty, CBO estimates the total amount of basic pay for these personnel will be approximately $4.8 billion in 2007. At the full-time contribution rate of 26.4 percent, DoD would have to transfer about $1.3 billion to the military retirement fund for these personnel. If authorized to make contributions at the lower part-time rate, DoD would have to contribute only $800 million to the fund, or about $450 million less. Thus, if enacted after the 2007 defense appropriations, CBO estimates section 581 would result in direct spending of $450 million in 2007.

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

- Section 343 would allow the Secretary of the Army to establish a program to sell demilitarized and recycled munitions and retain the proceeds to fund the reclamation, recycling and reuse of conventional military munitions. CBO estimates that implementing this provision would have an insignificant net effect on direct spending because it would allow DoD to spend any receipts generated under this program.

- Section 503 would allow chief warrant officers who have failed to be selected for promotion twice to be allowed to continue on active duty at the discretion of the service secretaries. Under current law, formal selection boards must be convened to allow those servicemembers to remain on active duty. Thus, this section could reduce the number of annual retirements, thereby reducing retirement outlays. Based on discussions with the Department of Defense, however, CBO expects that very few officers would postpone their retirements because of this provision.

- Section 512 would allow National Guard members who served on state active duty in support of a federal declaration of emergency in specified counties in the state of New Jersey, between September 11, 2001, and October 1, 2002, to apply that time served toward their federal military retirement. Based on information from the National Guard Bureau as to the number of members affected and the amount of time served during the specified period, CBO estimates that the resulting increase in outlays for retirement annuities would be less than $500,000 a year.

- Section 561 would require DoD to verify that the medical condition of servicemembers who are receiving temporary disability retirement has stabilized before separating them from the Armed Forces. Under current law, they may be separated any time their degree of disability is rated at less than 30 percent. This could result in some members receiving temporary disability retirements for up to three and one-half years longer than they otherwise would have. However, CBO expects an insignificant budgetary effect because this provision would likely affect few members, and because most potential costs would likely be offset by VA disability compensation.

- Section 623 would expand and renew DoD's authority to return certain retired servicemembers to active duty on a voluntary basis. Since DoD has significant authority to order retirees back to active duty during a national emergency, CBO believes that enhancing the authority to reactivate retirees will not have an immediate effect on the number of retirees returning to active duty. Once the current state of emergency no longer exists, CBO expects that this provision could result in some savings as additional activated retirees suspend receipt of their retirement annuities, but that the number of such members would be small and that any associated savings would be less than $500,000 in any year.

- Section 641 would allow retirees to choose a replacement beneficiary under the insurable interest option of the Survivor Benefit Plan, in cases where the retiree outlives the initial beneficiary. Based on data from DoD on current usage of that option, CBO estimates enacting this section would have an insignificant effect on direct spending for military retirement annuities.

- Section 705 would allow individuals under TRICARE to see mental health counselors outside of a doctor's supervision. This provision would affect those individuals covered under the TRICARE For Life program, which is considered direct spending, but CBO estimates that enacting this provision would have a negligible effect on such spending.

- Section 706 would require the Secretary of Defense to conduct a demonstration project in which select over-the-counter drugs are provided to beneficiaries instead of prescription drugs. Depending on how this program would be set up and which over-the-counter drugs were chosen to be covered, DoD could realize savings. Any savings attributable to coverage for those retirees and their dependents age 65 and over would be considered mandatory savings. Without more information about this project, CBO cannot estimate the savings. However, we expect that savings would be relatively small.

- Section 821 would extend by one year DoD's authority to settle financial accounts from contracts that were executed prior to September 30, 1996, and that have unreconciled balances of less than $100,000.

- Section 904 would expand the authority of DoD's Regional Centers for Security Studies to accept contributions to defray the cost of participation of foreign nationals at those centers. Since DoD would be allowed to spend any additional contributions it receives, CBO estimates that this provision would have an insignificant net effect.

- Section 912 would extend a pilot program that allows DoD to provide satellite tracking services to non-U.S. government entities. Under this program DoD is allowed to charge fees to cover the cost of providing such services. CBO estimates that implementing this provision would have an insignificant net effect on direct spending because it would allow DoD to spend any fees it collects.

- Section 3113 would allow the Secretary of Energy to enter into agreements with a foreign government, international organization, or any person to contribute funds for purposes of the Global Threat Reduction Initiative of the National Nuclear Security Administration. This section would allow the Department of Energy to retain those contributions in a separate fund established in the Treasury and to use those amounts for purposes of the initiative. Although we cannot estimate the time lag between receiving the contribution and spending it, CBO expects that the net effect of any such collections and expenditures would be insignificant.

- Section 3114 would allow the Secretary of Energy to enter into agreements with a foreign government, international organization, or any person to contribute funds for purposes of the Second Line of Defense program of the National Nuclear Security Administration. The section would allow DOE to retain the contributions in a separate fund established in the Treasury and to use the amounts for purposes of the initiative. Although we cannot estimate the time lag between receiving the contribution and spending it, CBO expects that the net effect of any such collections and expenditures would be insignificant.

Asset Sales

Section 3302 would increase by $365 million the target contained in the National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261; later revised by Public Laws 106-398, 107-107, 108-375, and 109-163) for sales from the National Defense Stockpile through 2014. CBO estimates that there will be sufficient quantities of materials in the stockpile to achieve additional sales receipts of $38 million in 2007, $173 million over the 2007-2011 period, and $278 million over the 2007-2016 period.

Section 3302 also would extend by two years the period to sell materials from the National Defense Stockpile as previously authorized in the National Defense Authorization Act for Fiscal Year 1997 (Public Law 104-201; later revised by Public Laws 106-65 and 107-107). These sales are set to expire on September 30, 2006, and CBO estimates that, by extending the sales through 2008, an additional $2 million in receipts could be achieved in 2007.

Section 3302 also would extend by two years the period to sell materials from the National Defense Stockpile as previously authorized in the National Defense Authorization Act for Fiscal Year 1998 (Public Law 105-85 later revised by Public Law 107-107). These sales are set to expire on September 30, 2006, and CBO believes that all materials would be sold by that date. CBO estimates that no additional receipts would be achieved by extending the sales through 2008.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 5122 contains both intergovernmental and private-sector mandates as defined in UMRA. It would prohibit employers and other providers of group health coverage from offering incentives to military retirees and their dependents to decline enrollment in the group health plan in favor of relying on TRICARE as the primary source of health coverage. It also would increase the maximum number of days that some reservists could be called to active duty. Both the prohibition and the extension would be intergovernmental and private-sector mandates as defined in UMRA. CBO estimates that the costs of those mandates would likely fall below the threshold for intergovernmental mandates but would exceed the threshold for private-sector mandates ($64 million for intergovernmental mandates in 2006 and $128 million for private-sector mandates in 2006, adjusted annually for inflation). The impact on state, local, and tribal governments is described below, and the impact on the private sector is described in the following section.

Increasing the Number of Days Some Reservists Can Be Called to Active Duty

Section 511 would increase the costs of complying with existing intergovernmental mandate as defined in UMRA, by increasing the number of days that some reservists could be called to active duty. Those reservists would be eligible, for an additional 95 days, for protection under the Servicemembers Civil Relief Act (SCRA) and the Uniformed Services Employment and Reemployment Rights Act (USERRA), including the right to maintain a single state of residence for purposes of state and local personal income taxes and the right to request a deferral in the payment of certain state and local taxes and fees, and certain employment protections. Extending those existing protections would constitute an intergovernmental mandate and could result in additional costs and lost revenues to those governments.

Based on information from the Federation of Tax Administrators, CBO expects that relatively few servicemembers would take advantage of the benefits; the costs and lost revenues to those governments would be insignificant.

Prohibiting Providers of Group Health Plans from Offering Certain Incentives

Section 710 would prohibit employers and other providers of group health coverage from offering incentives to military retirees and their dependents to decline enrollment in the group health plan in favor of relying on TRICARE as the primary source of health coverage. That prohibition would be an intergovernmental mandate as defined in the Unfunded Mandates Reform Act. Under current law, a number of state governments offer insurance policies that supplement TRICARE to employees who have retired from the military or dependents of military retirees who are eligible for TRICARE. In doing so, those employers realize savings because the costs of providing supplemental coverage is considerably less expensive than that of comprehensive, primary insurance.

If employers are prohibited from offering such supplemental policies or other incentives, the cost of providing health insurance to their employees would increase. Data for estimating the magnitude of such costs is limited, and estimates are particularly sensitive to changes in assumptions-for example, the number of employees who would have declined employer-sponsored insurance even in the absence of any incentive or estimates of how many employers offer such incentives. CBO estimates, however, that the mandate would likely impose costs on state, local, and tribal governments totaling between $35 million and $45 million annually.

Providing Benefits to State and Local Governments

This bill contains several provisions that would benefit state and local governments. Some of those provisions would authorize aid for certain local schools with dependents of defense personnel and convey of certain parcels of land to state and local governments. Any costs to those governments would be incurred voluntarily as a condition of receiving federal assistance.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 5122 would impose mandates on private-sector entities, and CBO estimates that the costs of those mandates would exceed the annual threshold established in UMRA.

Increasing the Number of Days Some Reservists Can Be Called to Active Duty

Section 511 would increase the costs of complying with an existing private-sector mandate, as defined in UMRA, by increasing the number of days that some reservists could be called to active duty. Those reservists would be eligible, for an additional 95 days, for protection under the Uniformed Services Employment and Reemployment Rights Act and the Servicemembers Civil Relief Act. Among other provisions, USERRA provides employment protections for members of the uniformed services whose performance of duty requires them to be absent from their civilian jobs, and the SCRA that allows courts to temporarily stay certain civil proceedings, such as evictions, foreclosures, and repossessions. Longer reserve call-ups may increase the likelihood that a reserve member would need such protections and could result in additional lost revenues or increased costs to private sector entities. In the case of protection against evictions, CBO estimates that the costs imposed on landlords are not likely to exceed $10 million annually, well below the UMRA threshold for private-sector mandates ($128 million in 2006, adjusted annually for inflation). CBO cannot determine precisely the increase in costs of other existing private-sector mandates in USERRA and the SCRA because no data are available that would permit those costs to be estimated.

Prohibiting Providers of Group Health Plans from Offering Certain Incentives

Section 710 would prohibit employers and other providers of group health coverage from offering incentives to employees eligible for TRICARE to decline enrollment in the group health plan in favor of relying on TRICARE as the primary source of health coverage. That prohibition would be a private-sector mandate as defined in UMRA. Under current law, some employers offer insurance policies that supplement TRICARE to employees who are eligible for TRICARE, most of whom are military retirees and their dependents and survivors. In doing so, those employers realize savings because the costs of providing supplemental coverage is considerably less expensive than that of comprehensive, primary insurance.

If employers are prohibited from offering such supplemental policies or other incentives, the cost of providing health insurance to their employees would increase. Data for estimating the magnitude of such costs are limited, and estimates are particularly sensitive to changes in assumptions—for example, the number of employees who would have declined employer-sponsored insurance even in the absence of any incentive or estimates of how many employers offer such incentives. CBO estimates, however, that the mandate would likely impose costs on private employers totaling about $132 million annually. This amount would be slightly higher than the threshold for private-sector mandates ($128 million in 2006, adjusted annually for inflation).

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