CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 21, 2007

S. 1547
National Defense Authorization Act for Fiscal Year 2008

As reported by the Senate Committee on Armed Services
on June 5, 2007

SUMMARY

S. 1547 would authorize appropriations totaling $629 billion for fiscal year 2008 for the military functions of the Department of Defense (DoD), for activities of the Department of Energy (DOE), and for other purposes.[1] That total includes $128 billion for military operations in Iraq and Afghanistan. In addition, S. 1547 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 $621 billion over the 2008-2012 period.

Including outlays from funds previously appropriated, spending for defense programs authorized by the bill would total about $599 billion in 2008, CBO estimates.[2] The bill also contains provisions that would both increase and decrease costs of discretionary defense programs in future years. Most of those provisions would affect force structure, compensation, and benefits. In total, such provisions would raise costs by $9 billion in 2008 (this amount is included in the above total of $629 billion specifically authorized for that year) and by $4 billion to $6 billion annually over the 2009-2012 period.

The bill contains provisions that would both increase and decrease direct spending from changes to TRICARE For Life, the foreign currency fluctuation account, combat-related

---

1. That figure does not include $11 billion in TRICARE For Life accrual payments that are included in DoD's 2008 budget and that will be made under current law. With those payments added to the authorizations in S. 1547, the total funding level for 2008 would equal $640 billion. By contrast, $11 billion in such accrual payments are implicitly included in the $641 billion that would be authorized by H.R. 1585, the National Defense Authorization Act for Fiscal Year 2008, as passed by the House.

2. The $599 billion in estimated spending for 2008 includes outlays from recently enacted supplemental appropriations for 2007 in Public Law 110-28, the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007. Including the effect of $11 billion in TRICARE For Life accrual payments discussed in footnote 1, outlays in 2008 would total about $610 billion.

special compensation, and other programs. We estimate that those provisions combined would decrease direct spending by $309 million in 2008, $714 million over the 2008-2012 period, and $2.1 billion over the 2008-2017 period. Those totals include estimated net receipts from asset sales of a little under $0.6 billion over the 2008-2017 period. (Under current scorekeeping rules and conventions, asset sale receipts are recorded as a credit against direct spending as long as such sales would not result in a net financial cost to the government—as determined on a present value basis.) In addition, enacting the bill would have a negligible effect on revenues.

Section 4 of the Unfunded Mandates Reform Act (UMRA) excludes from the application of that act any legislative provisions that enforce the constitutional rights of individuals. CBO has determined that section 1022 would fall within that exclusion because it would amend the authority of the President to employ the armed services to protect individuals' civil rights. Therefore, CBO has not reviewed that section of the bill for mandates.

Other provisions of S. 1547 contain both intergovernmental and private-sector mandates as defined in UMRA but CBO estimates that the annual cost of those mandates would not exceed the thresholds established in UMRA ($66 million for intergovernmental mandates in 2007 and $131 million for private-sector mandates in 2007, adjusted annually for inflation).

The bill also 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 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 COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1547 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 S. 1547 will be enacted near the start of fiscal year 2008 and that the authorized amount will be appropriated for that year. The estimated outlays from authorizations of regular appropriations are based on historical spending patterns.

TABLE 1. BUDGETARY IMPACT OF S. 1547, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2008[a]

	By Fiscal Year, in Millions of Dollars					
	2007	2008	2009	2010	2011	2012
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Programs Authorized by S. 1547						
Budget Authority [b]	617,085	0	0	0	0	0
Estimated Outlays	551,703	219,217	79,329	27,802	10,589	4,277
Proposed Changes						
Authorization of Regular Appropriations for 2008						
Authorization Level	0	501,033	0	0	0	0
Estimated Outlays	0	320,660	116,444	39,156	12,588	4,993
Authorization of Appropriations for 2008 for Military Operations in Iraq and Afghanistan						
Authorization Level	0	128,226	0	0	0	0
Estimated Outlays	0	59,054	45,470	15,961	4,751	1,648
Spending Under S. 1547						
Authorization Level [b]	617,085	629,259	0	0	0	0
Estimated Outlays	551,703	598,931	241,243	82,919	27,928	10,918
CHANGES IN DIRECT SPENDING (INCLUDING ASSET SALES) [c]						
Estimated Budget Authority	0	-112	-138	84	26	54
Estimated Outlays	0	-309	-287	-72	-62	14

Note: For 2008, the authorization levels under "Proposed Changes" include amounts specifically authorized by the bill. As discussed in footnote 1 of the "Summary" to this estimate, the $629 billion that would be authorized by the bill does not include $11 billion in TRICARE For Life accrual payments that will be made under current law. (For additional information on those payments, see the discussion under "Previous CBO Estimates.") The bill also implicitly authorizes some activities in 2009 through 2012; those authorizations are not included above (but are shown in Table 3) because funding for those activities would be covered by specific authorizations in future years.

a. Enactment of S. 1547 would have an insignificant effect on federal revenues.

b. The 2007 level is the amount appropriated for programs authorized by the bill. That figure includes $99.3 billion that was recently provided in Public Law 110-28, the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007. The 2007 level shown here is slightly lower than the comparable figure presented in CBO's cost estimate for H.R. 1585, the National Defense Authorization Act for Fiscal Year 2008, as passed by the House, because H.R. 1585 would authorize appropriations for some existing programs that would not be authorized by S. 1547.

c. In addition to the direct spending effects shown here, enacting S. 1547 would have additional effects on direct spending after 2012 (see Table 4). The estimated changes in direct spending (including asset sales) would reduce outlays by $2.1 billion over the 2008-2017 period.

Spending Subject to Appropriation

The bill would specifically authorize appropriations totaling $629 billion in 2008 (see Table 2). Nearly all of that amount falls within budget function 050 (national defense), while a small portion—$62 million for the Armed Forces Retirement Home—falls within budget function 600 (income security).

Of the $629 billion in funding for 2008 authorized by the bill for the costs of defense programs, $128 billion of that amount would be for DoD costs associated with continuing operations in Iraq and Afghanistan.

The bill also contains provisions that would both increase and decrease various costs, mostly for changes in end strength, military compensation, and health benefits, that would be covered by the fiscal year 2008 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.

Such contracts frequently include provisions that require DoD to pay for unrecovered fixed costs in the event that the contract is canceled before completion. DoD does not budget for, obtain, or obligate funds sufficient to pay for those contractual commitments at the time they are incurred. Authorizing DoD to initiate a multiyear procurement program with such 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.

TABLE 2. SPECIFIED AUTHORIZATIONS IN S. 1547

Category	By Fiscal Year, in Millions of Dollars 2008	2009	2010	2011	2012
Authorization of Regular Appropriations					
Department of Defense					
Military Personnel					
Authorization Level [a]	109,352	0	0	0	0
Estimated Outlays	103,409	5,411	175	25	0
Operation and Maintenance					
Authorization Level	166,618	0	0	0	0
Estimated Outlays	127,463	31,030	4,824	1,723	727
Procurement					
Authorization Level	110,731	0	0	0	0
Estimated Outlays	32,226	41,476	22,272	7,451	3,126
Research and Development					
Authorization Level	74,208	0	0	0	0
Estimated Outlays	41,037	26,828	4,553	1,051	297
Military Construction and Family Housing					
Authorization Level	21,784	0	0	0	0
Estimated Outlays	3,037	7,332	6,759	2,488	919
Revolving Funds					
Authorization Level	2,395	0	0	0	0
Estimated Outlays	1,760	476	86	50	24
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	1,000	-200	-400	-200	-100
Subtotal, Department of Defense					
Authorization Level [a]	485,088	0	0	0	0
Estimated Outlays	309,932	112,353	38,269	12,588	4,993
Atomic Energy Defense Activities [b]					
Authorization Level	15,883	0	0	0	0
Estimated Outlays	10,676	4,082	887	0	0
Armed Forces Retirement Home					
Authorization Level	62	0	0	0	0
Estimated Outlays	52	9	0	0	0
Subtotal, Authorization of Regular Appropriations					
Authorization Level [a]	501,033	0	0	0	0
Estimated Outlays	320,660	116,444	39,156	12,588	4,993

(Continued)

TABLE 2. CONTINUED

Category	By Fiscal Year, in Millions of Dollars 2008	2009	2010	2011	2012
Authorization of Appropriations for Military Operations in Iraq and Afghanistan					
Military Personnel					
Authorization Level	12,922	0	0	0	0
Estimated Outlays	12,190	689	17	2	0
Operation and Maintenance					
Authorization Level	78,117	0	0	0	0
Estimated Outlays	36,478	30,588	7,581	1,940	904
Procurement					
Authorization Level	32,803	0	0	0	0
Estimated Outlays	8,069	12,685	7,908	2,714	725
Research and Development					
Authorization Level	1,950	0	0	0	0
Estimated Outlays	1,117	683	111	23	6
Military Construction					
Authorization Level	753	0	0	0	0
Estimated Outlays	8	309	286	98	38
Revolving Funds					
Authorization Level	1,681	0	0	0	0
Estimated Outlays	947	569	128	27	10
Special Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	245	-53	-70	-53	-35
Subtotal, Iraq and Afghanistan					
Authorization Level	128,226	0	0	0	0
Estimated Outlays	59,054	45,470	15,961	4,751	1,648
Total Specified Authorizations					
Authorization Level [a]	629,259	0	0	0	0
Estimated Outlays	379,714	161,914	55,117	17,339	6,641

a. As discussed in footnote 1 of the "Summary" to this estimate, this figure does not include the effect of an estimated $11 billion in TRICARE For Life accrual payments that will be made under current law. For additional information, see the discussion under "Previous CBO Estimates."

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

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN S. 1547

Category	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
FORCE STRUCTURE					
Army and Marine Corps Active-Duty End Strengths	6,683	4,821	4,257	3,292	2,930
Navy and Air Force Active-Duty End Strengths	-583	-935	-966	-1,000	-1,033
Reserve Component End Strengths	306	71	50	52	53
Reserve Technicians	-7	-15	-15	-16	-16
Grade Structure	97	182	248	257	265
COMPENSATION AND BENEFITS (DOD)					
Pay Raise	311	425	439	454	469
Expiring Bonuses and Allowances	2,127	916	370	185	180
Hardship Duty Pay	79	56	33	23	23
Leave Carryover	4	21	22	23	23
Accession Bonus for Health Professional Scholarship	15	15	15	15	15
Special Pays for Medical Officers	8	9	10	10	10
Dental Officer Special Pay	8	8	8	8	8
Loan Repayment for Reserves	1	2	3	4	5
DEFENSE HEALTH PROGRAM					
Discount Drug Pricing	-300	-330	-360	-390	-430
OTHER					
Defense Acquisition Workforce Development Fund	300	725	1,150	1,600	1,625

Notes: For every item in this table, the 2008 levels are included in Table 2 as amounts specifically authorized to be appropriated by the bill. Amounts shown in this table for 2009 through 2012 are not included in Table 1, because authorizations for those amounts would be covered by specific authorizations in future years.

Figures shown here may not add to numbers in the text because of rounding.

This bill would authorize the Department of Defense to enter into multiyear procurement contracts for three programs: enhancements to the Abrams tank, upgrades to the Bradley Fighting Vehicle, and new Virginia class submarines.

Section 111 would authorize the Army to enter a multiyear contract for up to five years to acquire a number of improvements to M1A1 Abrams tanks over a five-year period. If granted this authority, the Army plans to enter a contract for the 2008-2012 period to modify 577 tanks at a total cost of $1,595 million; it has requested $639 million in 2008 to upgrade 241 tanks. The Army estimates that a multiyear procurement contract for those tank modifications would cost $178 million less than a series of annual procurement contracts for those systems.

Section 112 would authorize the Army to enter a multiyear contract to acquire a number of improvements to the Bradley Fighting Vehicle. According to budget documents provided by the Army, the service would use this authority to enter a contract for the 2008-2011 period to modify 965 vehicles at a total cost of $2,310 million; it has requested $1,151 million in 2008 to upgrade 525 vehicles. The Army estimates that a multiyear procurement contract for those modifications would cost $131 million less than a series of annual procurement contracts for those systems.

Section 131 would authorize the Navy to enter a multiyear contract for Virginia-class submarines beginning in fiscal year 2009. The Navy plans to enter a contract for the 2009-2013 period to purchase seven submarines at a total cost of $19.1 billion; it has requested $703 million in 2008 to buy certain components in economic quantities and to order items that have lengthy production times. The Navy estimates that a multiyear procurement contract would cost $2.9 billion less than a series of annual procurement contracts for those vessels.

Force Structure. The bill would affect force structure by setting end-strength levels for the various military services and by increasing the number of personnel in higher pay grades.

Military End Strength. Title IV would authorize end-strength levels in 2008 for active-duty personnel and personnel in the selected reserves of about 1,370,000 and 850,000, respectively. Of those selected reservists, about 76,000 would serve on active duty in support of the reserves. In total, active-duty end strength would increase by about 4,000 and selected-reserve end strength would decrease by about 5,000 when compared to levels authorized for 2007.

Section 401 would authorize increases to the active-duty end strengths of the Army and Marine Corps relative to the personnel levels authorized for 2007. CBO estimates that those increases—13,000 additional personnel for the Army and 9,000 for the Marine Corps—would increase costs to DoD by about $7 billion in 2008 and about $22 billion over the 2008-2012 period. Those costs include the pay and benefits of the additional personnel, as well as costs for operation and maintenance, procurement, and construction.

Section 401 also would decrease the Navy's active-duty end strength by 12,300 and the Air Force's active-duty end strength by 5,600. CBO estimates that, combined, those decreases in end strength would cut costs for salaries and other expenses by about $580 million in the first year and about $1 billion annually in subsequent years.

Sections 411 and 412 would authorize the end strengths for the reserve components, including those full-time reservists who serve on active duty in support of the reserves. Under this bill, the selected reserve would experience a net decrease in end strength of 4,900, with the Navy Reserve and Air Force Reserve losing personnel while the Army Reserve and National Guard would see an increase. However, the cost savings from that net decrease would be more than offset by the cost of an increase of 1,900 in the number of reservists who serve on active duty in support of the reserves. CBO estimates that the net result of implementing those provisions would be an increase in costs for salaries and other expenses for selected reservists of $306 million in 2008 and about $50 million a year thereafter as compared to the authorized end-strength levels for 2007. Costs would be higher in 2008 and 2009 than in later years as a result of the need to procure new equipment for the additional Army National Guard personnel.

In addition, sections 413 and 414 would authorize the minimum end-strength level for military technicians, who are federal civilian personnel required to maintain membership in a selected reserve component as a condition of their employment. Under this bill, the required number of technicians would decrease by 128 relative to the levels currently authorized. CBO estimates the savings in civilian salaries and expenses that would result from fewer military technicians would be about $7 million in 2008 and about $15 million annually thereafter, as compared to the minimum end-strength levels for technicians in 2007.

The bill also would authorize an end strength of 10,000 servicemembers in 2008 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.

Grade Structure. Sections 501, 502, and 521would increase the number of servicemembers in certain grades. Sections 501 and 502 would increase the number of officers authorized to serve as majors in the Army and as lieutenant commanders, commanders, and captains in the Navy. Section 521 would allow the services to increase the percentage of personnel serving in the pay-grade of E-9 from 1 percent of the enlisted force to 1.25 percent. Those changes would not increase the overall end strength, but would result in more promotions to those ranks. CBO estimates that the additional pay and benefits associated with promoting personnel to those higher grades would be about $100 million in 2008 and $1 billion over the 2008-2012 period.

Compensation and Benefits. S. 1547 contains several provisions that would affect military compensation and benefits for uniformed personnel. The bill would specifically authorize regular appropriations of $109 billion and additional appropriations for operations in Iraq and Afghanistan of $13 billion for costs of military pay and allowances in 2008.

Pay Raise. Section 601 would raise basic pay for all individuals in the uniformed services by 3.5 percent, effective January 1, 2008. CBO estimates the total cost of a 3.5 percent raise in 2008 would be about $2.2 billion. Because the pay raise would be above that projected under current law (under current law a 3 percent across-the-board increase would go into effect on January 1, 2008), CBO estimates that the incremental cost associated with the larger pay raise would be about $311 million in 2008 and $2.1 billion over the 2008-2012 period.

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 2007. The bill would extend these authorities for another year. Based on data provided by DoD, CBO estimates that:

- Authorities to make special payments and give bonuses to certain health care professionals would cost $26 million in 2008 and $15 million in 2009;

- Special payments for aviators and personnel qualified to operate and maintain naval nuclear propulsion plants would cost $104 million in 2008 and $72 million in 2009;

- Retention and accession bonuses for officers and enlisted members with critical skills would cost $95 million in 2008 and $42 million in 2009;

- Payment of reenlistment bonuses for active-duty and reserve personnel would cost $1.2 billion in 2008 and $451 million in 2009; and

- Enlistment bonuses for active-duty and reserve personnel would cost $638 million in 2008 and $330 million in 2009.

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 $2.1 billion in 2008 and $3.8 billion over five years.

Hardship Duty Pay. Section 617 would increase the maximum allowable amount of hardship duty pay from $750 per month to $1,500 per month. The Army reports that it would use this additional authority as part of its "Warrior Pay" program, which would provide extra incentives to military personnel who make frequent deployments to combat zones. Based on information from the Army, CBO estimates the total cost of implementing this section would be $79 million in 2008 and $214 million over the 2008-2012 period. Costs would be lower in later years because CBO expects overseas deployments will decrease.

Leave Carryover. Section 591 would allow servicemembers to carry up to 90 days of leave from one year to the next and also would allow members to sell accumulated leave in excess of 120 days back to the government. Under current law, members may carryover a maximum of 60 days of leave at the end of each fiscal year, unless they have recently participated in a contingency operation, in which case they can carry over up to 120 days of leave. Section 591 would increase the maximum carryover allowed to 90 days for members who have not participated in a contingency operation.

When members reenlist or separate, they are currently allowed to sell up to 60 days of leave back to the government. However, increasing the amount of leave carried over from year to year would increase the average amount of leave sold back to the government, even within the 60-day buyback limit. According to data from DoD, in 2006, almost 150,000 personnel were each paid for an average of 19 days of leave at a total cost of about $250 million. Based on an analysis of current leave balances provided by the Defense Finance and Accounting Service, CBO estimates that increasing leave carryover to 90 days would increase the average amount of leave sold back to the government by about 7 percent. This would increase the annual cost of payments for unused leave by about $17 million beginning in fiscal year 2009.

In addition, section 591 would allow members to sell accumulated leave in excess of 120 days back to the government. Based on data from DoD, CBO estimates that, each year, about 2,000 servicemembers will have leave in excess of 120 days—about 131 days of leave, on average, for that group. The cost to DoD to buy back those extra days would be about $155 per person per day, so that the cost would be about $4 million in 2008 and $21 million over the 2008-2012 period. When combined with the increase in leave carryover, CBO estimates the total cost of implementing section 591 would be $4 million in 2008 and $93 million over the 2008-2012 period.

Accession Bonus for Health Professions Scholarship. Section 624 would allow DoD to award accession bonuses of up to $20,000 to students who enroll in the Health Professions Scholarship and Financial Assistance Programs. Those programs pay the tuition and stipends of medical students who agree to serve in the armed forces upon completion of their studies. Because the armed forces are having difficulty recruiting medical professionals, CBO believes that DoD would use the maximum amount of this authority if funding were made available. Based on data from DoD, CBO estimates about 750 students would enroll in the program and receive this bonus each year, and that the total cost of implementing section 624 would be $15 million in 2008 and $74 million over the 2008-2012 period.

Special Pay for Medical Officers. Section 615 would increase the maximum allowable amounts for both incentive special pay and the multiyear retention bonus for medical officers from $50,000 to $75,000 for each year the officer agrees to remain in the armed forces. There are currently only three medical specialties that are paid at, or near, the current maximum amounts: neurologists, radiologists, and anesthesiologists. The total number of personnel in those specialties is currently about 630, although to qualify for incentive special pay medical officers must first complete their initial service agreements with DoD, and to qualify for the retention bonus an officer must have at least eight years of service. Based on DoD data, CBO estimates that about 50 percent of those 630 people would be eligible for the increased incentive special pay and about 15 percent would receive the higher retention bonus. CBO estimates the total cost of implementing this section would be $8 million in 2008 and $48 million over the 2008-2012 period.

Dental Officer Special Pay. Section 616 would increase additional special pay for dental officers with less than 10 years of service by $6,000 per year. Currently, those personnel receive either $4,000 or $6,000 per year depending on their seniority. This section would increase those amounts to $10,000 and $12,000. Based on data from DoD, CBO estimates about 1,350 dentists would receive the increase in additional special pay if this section were enacted, for a cost of $8 million in 2008 and $41 million over the 2008-2012 period.

Loan Repayment for Reserves. Section 672 would expand DoD's education loan repayment program to include officers in the selected reserve. Enlisted reservists are currently eligible to receive benefits under this program. Assuming that officer enrollment in this program would be proportionate to that of enlisted members with college degrees, CBO estimates that DoD would initiate loan repayment for about 620 reserve officers each year if this authority were enacted. CBO estimates the average amount of the loan repayments would total about $7,000 per person and would be paid over six years in annual increments of about $1,200, so that the total cost of this section would be $1 million in 2008 and $14 million over the 2008-2012 period.

Discount Drug Pricing. Under current law, DoD is one of several federal agencies that receives from pharmaceutical makers a significantly reduced price for drugs on the Federal Supply Schedule (FSS). Through this program, DoD is able to procure at a discount the drugs that it provides to beneficiaries through its hospital pharmacies and mail-order program. However, under DoD's TRICARE programs, beneficiaries can also fill prescriptions at retail pharmacies. Many drug manufacturers have refused to provide discounted prices to DoD for medications provided to beneficiaries in that manner.

Section 701 would require drug manufacturers to provide FSS pricing on purchases covered by TRICARE at retail pharmacies. Based on information from DoD about prescriptions filled at retail pharmacies by active-duty dependents and retirees and their dependents under age 65, CBO estimates that implementing this section could result in savings of about

$300 million in 2008 and about $1.8 billion over the 2008-2012 period. This estimate is based on the difference between what DoD currently pays drug manufacturers for prescriptions filled at retail pharmacies and the FSS prices for those drugs. The estimate takes into account price inflation, projected increases in drug usage, and a growing active-duty population, resulting in increased savings in future years. (See the discussion in the "Direct Spending" section for CBO's evaluation of this provision on the mandatory TRICARE For Life program.)

Defense Acquisition Workforce Development Fund. Section 844 would establish the Defense Acquisition Workforce Development Fund to dedicate funding for recruiting, training, and retaining acquisition personnel in excess of the levels DoD is currently using for those purposes. Military services and defense agencies would be required to deposit into the fund in each fiscal year a percentage of the funds expended in that year on contracts for services, other than services related to research and development or construction. That percentage would increase in even steps from 0.5 percent of such expenditures in 2008 to 2 percent in 2011 and thereafter.

Based on information from the Federal Procurement Data System, CBO estimates that DoD will expend approximately $75 billion to $80 billion each year on contracts for services covered under this provision. The required deposit would be in addition to the amounts necessary to pay for the performance of the services contracts. CBO estimates that implementing section 844 would increase personnel and training costs by about $5.5 billion over the 2008-2012 period. Most of the deposits to the fund would be related to expenditures of future appropriations. Those discretionary costs would total $300 million in 2008 and $5.4 billion over the 2008-2012 period. The remainder of the deposits, which would be related to the expenditure of funds that were appropriated in fiscal year 2007 and in prior years, would constitute direct spending. Those costs are described later in this estimate.

Direct Spending

The bill contains provisions that would increase and decrease direct spending from changes to TRICARE For Life, the foreign currency fluctuation account, combat-related special compensation, and other programs. S. 1547 also would increase receipts from asset sales, as discussed in the following section. We estimate that those provisions combined would decrease direct spending by $309 million in 2008, $714 million over the 2008-2012 period, and $2,088 million over the 2008-2017 period (see Table 4).

TABLE 4. DIRECT SPENDING, ASSET SALES, REVENUES (By fiscal year, in millions of dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total 2008-2012	Total 2008-2017
CHANGES IN DIRECT SPENDING (EXCLUDING ASSET SALES)												
Discount Drug Pricing												
Estimated Budget Authority	-360	-390	-420	-460	-500	-540	-580	-630	-680	-740	-2,130	-5,300
Estimated Outlays	-360	-390	-420	-460	-500	-540	-580	-630	-680	-740	-2,130	-5,300
Transfers to Foreign Currency Account												
Estimated Budget Authority	200	300	500	500	500	0	0	0	0	0	2,000	2,000
Estimated Outlays	100	200	400	450	500	250	100	0	0	0	1,650	2,000
Combat-Related Special Compensation												
Estimated Budget Authority	7	70	98	65	67	69	72	74	76	79	308	678
Estimated Outlays	7	70	98	65	67	69	72	74	76	79	308	678
Aviation War Risk Insurance												
Estimated Budget Authority	-80	-160	-120	-60	-10	30	200	240	210	150	-430	400
Estimated Outlays	-80	-160	-120	-60	-10	30	200	240	210	150	-430	400
Multiyear Contracts for Renewable Electricity												
Estimated Budget Authority	80	80	80	80	80	80	0	0	0	0	400	480
Estimated Outlays	8	16	24	32	40	48	48	48	48	48	120	360
Early Reserve Retirement												
Estimated Budget Authority	*	2	6	11	16	20	28	35	43	52	35	213
Estimated Outlays	*	2	6	11	16	20	28	35	43	52	35	213
Defense Acquisition Workforce Development Fund												
Estimated Budget Authority	90	30	20	0	0	0	0	0	0	0	140	140
Estimated Outlays	65	45	20	10	0	0	0	0	0	0	140	140
Spending of Reimbursements from Palau												
Estimated Budget Authority	*	*	*	*	*	*	*	*	*	*	1	3
Estimated Outlays	*	*	*	*	*	*	*	*	*	*	1	2
Extension of FEGLI for Reservists												
Estimated Budget Authority	1	*	*	*	*	*	*	*	*	*	1	1
Estimated Outlays	1	*	*	*	*	*	*	*	*	*	1	1
Subtotal												
Estimated Budget Authority	-62	-68	164	136	153	-341	-280	-281	-351	-459	325	-1,385
Estimated Outlays	-259	-217	8	48	113	-123	-132	-233	-303	-411	-305	-1,506

(Continued)

TABLE 4. CONTINUED

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total 2008-2012	Total 2008-2017
ASSET SALES												
National Defense Stockpile												
Estimated Budget Authority	-50	-70	-80	-110	-99	-70	-60	-43	0	0	-409	-582
Estimated Outlays	-50	-70	-80	-110	-99	-70	-60	-43	0	0	-409	-582
Total Changes												
Estimated Budget Authority	-112	-138	84	26	54	-411	-340	-324	-351	-459	-84	-1,967
Estimated Outlays	-309	-287	-72	-62	14	-193	-192	-276	-303	-411	-714	-2,088

Notes: FEGLI = Federal Employees' Group Life Insurance.

* = less than $500,000.

Components may not sum to totals because of rounding.

Discount Drug Pricing. Under current law, DoD is one of several federal agencies that receives from pharmaceutical makers a significantly reduced price for drugs on the Federal Supply Schedule (FSS). Through this program, DoD is able to procure at a discount the drugs that it provides to beneficiaries through its hospital pharmacies and mail-order program. However, under DoD's TRICARE programs, including the TRICARE For Life program for retirees and their dependents age 65 and over, beneficiaries can also fill prescriptions at retail pharmacies. Many drug manufacturers have refused to provide discounted prices to DoD for medications provided to beneficiaries in that manner.

Section 701 would require drug manufacturers to provide FSS pricing on purchases covered by TRICARE at retail pharmacies. Based on information from DoD about prescriptions filled at retail pharmacies by retirees and their dependents age 65 and over, CBO estimates that implementing this section could reduce direct spending by about $360 million in 2008, $2.1 billion over the 2008-2012 period, and $5.3 billion over the 2008-2017 period. This estimate is based on the difference between what DoD currently pays drug manufacturers for prescriptions filled at retail pharmacies and the FSS prices for those drugs. The estimate takes into account price inflation and projected increases in drug usage, resulting in increased savings in future years. (See the above discussion under "Spending Subject to Appropriation" for CBO's evaluation of this provision on the discretionary TRICARE program for active-duty dependents and those retirees and their dependents under age 65.)

Transfers to the Foreign Currency Account. Section 1007 would enhance DoD's ability to use expired appropriations to cover the costs of certain contracts and projects which are financed using foreign currencies. CBO estimates that section 1007 would increase direct spending outlays by $100 million in 2008, $1.7 billion over the 2008-2012 period, and $2 billion over the 2008-2017 period.

Under current law, most appropriations are available for obligation for a specified number of years and, after that time, they expire and cease to be available for new obligations.[3] Once expired, however, those balances can be used during the following five years to record, adjust, or liquidate existing obligations. At the end of that five-year period, any remaining balances are cancelled. Appropriations for military personnel and for operation and maintenance generally are available for obligation for one year, except as discussed below.

Current law also contains another use for certain DoD funds that have expired. Title 10 of the U.S. Code, section 2779, allows DoD to transfer expired appropriations from its military personnel and operation and maintenance accounts into its Foreign Currency Fluctuations, Defense (FCF, D) account, provided that the transfer occurs within two years of when the applicable appropriation expired, and that the account balance does not exceed $970 million at the time the transfer is made. Funds in the account can then be transferred back to the military personnel and operation and maintenance accounts and be obligated to cover "losses" that occur when actual exchange rates are less favorable than the exchange rates that DoD used in formulating its budget. If those transfers—to cover such losses— prove to exceed DoD's requirements, the department can once again transfer funds back to the FCF,D account within a corresponding two-year period. In addition, if actual exchange rates prove more favorable than DoD's forecast, the department can transfer those "gains" into the FCF,D account.

Section 1007 would extend—from two years to five years—the time period that DoD could transfer expired balances from the military personnel and operation and maintenance accounts to the FCF,D account. This would result in a reappropriation of funds by allowing existing appropriations that are currently expired—or that will otherwise expire under current law—to become newly available for obligation.

Under section 1007, DoD would have access to a larger pool of balances that could be transferred into the FCF,D account because under the existing two-year limit, DoD's program managers are reluctant to allow such transfers when those balances may ultimately be needed to adjust or liquidate obligations in later years. Under section 1007, once the life of the

3. The Congress does make some appropriations "available until expended"; those funds do not expire after a given number of years.

balances approach the end of the applicable five-year period, managers would likely allow almost all such balances to be transferred because those funds would otherwise be cancelled.

During the 2002-2006 period, transfers of expired balances ranged from $0.6 billion to $1.9 billion annually. Based on DoD's past use of expired balances to cover currency losses, on the expanded pool of balances that would be available to cover currency losses, and considering the inherent uncertainty in forecasting exchange rates, CBO estimates that enacting this section would result in reappropriations of about $200 million in 2008 and about $2 billion over the 2008-2012 period. Outlays would total about $100 million in 2008, $1.7 billion over the 2008-2012 period, and roughly $2 billion over the 2008-2017 period.

Under current law almost all applicable balances from appropriations provided in 2007 and prior years will be cancelled after 2012. Therefore, CBO estimates that no balances would be reappropriated in 2013 or in later years. However, when the Congress provides DoD with appropriations for 2008 and future years, DoD would ultimately spend a higher percentage of those funds if section 1007 is enacted into law. That added spending is not reflected in Table 4 because those outlays would be subject to future appropriation actions.

Combat-Related Special Compensation (CRSC). Currently, disabled servicemembers who are allowed to retire with less than 20 years of service see their retirement annuity offset or reduced by any amount of disability compensation that they receive from VA. Retirees who have served 20 or more years in the service and whose VA-rated disability is related to combat, hazardous duty, or military training are eligible to receive CRSC. This compensation replaces part or all of the portion of their retirement annuity that is offset by VA disability compensation. Section 653 would allow disability retirees with less than 20 years of service to receive CRSC. Based on information from DoD, CBO estimates that enacting this provision would increase direct spending by $7 million in 2008, $308 million over the 2008-2012 period, and $678 million over the 2008-2017 period.

Aviation War-Risk Insurance. Under current law, the Federal Aviation Administration (FAA) offers a commercial aviation insurance program that, for a premium, insures air carriers and certain manufacturers against liabilities arising from losses caused by terrorist events. The FAA also offers a non-premium insurance program to air carriers that participate in the Civil Reserve Air Fleet (CRAF). The FAA's authority to operate both of those programs is scheduled to expire on March 30, 2008. Section 353 would extend those programs through December 31, 2013. CBO estimates that extending the CRAF program through 2013 would have no significant budgetary impact; however, extending the FAA's authority to offer commercial aviation insurance through 2013 would reduce net direct spending by $80 million in 2008 and $430 million over the 2008-2012 period, but would increase net direct spending by $400 million over the 2008-2017 period.

Those long-term net costs result because CBO assumes that the FAA would continue to offer commercial aviation insurance at rates that would not fully offset the government's cost of providing that coverage. Based on information from the FAA about current rates, CBO estimates that increased offsetting receipts from premiums (which are credited against direct spending) would total $1.1 billion over the 2008-2014 period. CBO also estimates, however, that payments for expected losses under section 353 would cost $1.5 billion over the next 10 years, with residual spending after 2017.

CBO cannot predict how much insured damage terrorists might cause to air carriers and manufacturers in any specific year. Instead, our estimate of the cost of commercial aviation insurance under section 353 represents an expected value of payments from the program—a weighted average that reflects the probabilities of various outcomes, from zero damages up to very large damages caused by possible future terrorist attacks. The expected value can be thought of as the amount of an insurance premium that would be necessary to just offset the risk of providing this insurance; indeed, our estimate of the expected cost of implementing section 353 is based on actual premiums for terrorism insurance that have been paid by non-U.S. air carriers that must purchase such insurance from the private sector. Our estimate also recognizes that some costs faced by private insurance firms are not borne by the federal government. While this cost estimate reflects CBO's best judgment on the basis of available information, such future costs are a function of inherently unpredictable future terrorist attacks. Actual costs could fall anywhere within an extremely broad range.

Multiyear Contracts for Renewable Energy. Section 826 would allow DoD to enter contracts for a term of up to 10 years to purchase electricity from renewable sources such as wind or solar power generators. Based on information from DoD, CBO expects that the department would commit to purchasing a guaranteed amount of electricity as part of those contracts, to encourage producers to invest in renewable energy generation equipment and to enable them to acquire financing at favorable interest rates.

When the government enters a contract with a guaranteed purchase amount, it incurs a legal obligation for the full cost of those purchases. However, when DoD has used other multiyear contracting authorities in the past, it has typically obtained budget authority and recorded obligations only for the payments that were due in the first year of the contract, even though its actual contractual obligation exceeded that amount. That method of implementing multiyear procurement authority provides DoD with contract authority—a form of budget authority—because it allows the department to incur an obligation in excess of available appropriations. Budget authority for the full cost of such contracts should be recorded at the time it is signed and outlays should be recorded over the term of the contracts as payments are made for the electricity consumed.

Under current law, DoD is required to obtain 7.5 percent of its electricity from renewable energy sources by 2013. It currently gets about 4 percent of its electricity from such sources. If section 826 were enacted, CBO estimates that DoD would use multiyear contracts to purchase half the additional renewable electricity it needs—nearly 500,000 megawatt hours per year—to meet that requirement. The cost of renewable energy would vary based on the mix of wind, solar, and biomass power generators that were used; CBO estimates that DoD would pay roughly $100 per megawatt hour of renewable electricity. CBO assumes that over a six-year period, DoD would initiate a series of 10-year contracts for even increments of additional electricity at a cost of $80 million per year until it was acquiring 500,000 megawatt hours of electricity from renewable sources by 2013. Under such contracts, direct spending would increase by $8 million in 2008, $120 million over the 2008-2012 period, and $360 million over the 2008-2017 period. The first group of multiyear contracts that would be initiated in 2008 would expire after 2017. At that time, the department would need to enter new contracts for renewable electricity to continue to satisfy the requirement in current law. CBO estimates that in total, such contracts would increase direct spending by about $50 million each year after 2017.

Early Reserve Retirement. Under current law, members of the reserve components may not receive retirement annuities for their service until they reach 60 years of age. Section 655 would allow retired reservists to receive such annuities earlier if they were called to active duty as a reservist and served for at least 90 days. Under this proposal, for every 90 days a reservist is activated after passage of S. 1547, they would be eligible to begin receiving their retirement annuities 90 days earlier than they otherwise would. Relatively few reservists would be able to take advantage of this provision in the near future. As most reservists stop active participation in the reserves well before their 60th birthday, few reservists nearing retirement over the next decade will have served on active duty during that decade. Therefore, the full annual costs of this provision would occur more than 10 years after enactment and are not reflected in this estimate. Based upon information from DoD, CBO estimates that enacting this provision would have an insignificant effect on direct spending in 2008, and would increase direct spending by about $35 million over the 2008-2012 period and $213 million over the 2008-2017 period.

Defense Acquisition Workforce Development Fund. Section 844 would establish the Defense Acquisition Workforce Development Fund to dedicate funding for recruiting, training, and retaining acquisition personnel in excess of the levels DoD is currently using for those purposes. Deposits to the fund would be based on a percentage of expenditures on contracts for services in a given year. CBO estimates that over the 2008-2010 period more than $23 billion will be expended on such contracts from funds that have already been appropriated.

Most contracts for services are paid from appropriations for operation and maintenance, which generally are available for obligation for only one year. For the following five years, those funds—now expired—are available only to record, adjust, or liquidate existing obligations to the account. At the end of that five-year period, any remaining balances are cancelled. (Over $1 billion in unexpended balances of operation and maintenance funds are cancelled each year.) Expired, unobligated balances are available to pay for an increase in the cost of contracts for which funds were obligated during the period of availability. CBO expects that the department would treat the requirement to make deposits into the Fund as an increase in the cost of the contracts on which such deposits are based, thus allowing it to use expired, unobligated balances to make the required deposits for expenditures of funds that were appropriated prior to enactment of this bill. Thus, this section would make those expired balances available for expenditure, resulting in a reappropriation of those funds. CBO estimates that those reappropriations would increase direct spending by $65 million in 2008 and $140 million over the 2008-2011 period. (This section would also require DoD to make deposits based on the expenditure of funds that have yet to be appropriated. Those deposits are discretionary costs and are discussed above in the section on "Spending Subject to Appropriation.")

Spending of Reimbursements from Palau. Section 1213 would allow DoD to spend reimbursements from the government of Palau. Under current law, Palau reimburses the United States for the cost of providing military civic action teams and those receipts—about $250,000 annually—are deposited into the U.S. Treasury. CBO estimates that enacting section 1213 would cost less than $500,000 in every year, and would cost a total of $1 million over the 2008-2012 period and $2 million over the 2008-2017 period.

Extension of Federal Employees Group Life Insurance (FEGLI) for Reservists. Civilian employees of the federal government are entitled to purchase life insurance under the FEGLI program. Under current law, that insurance coverage may be continued for up to 12 months for reservists who are called to active military service. Section 1103 would extend FEGLI coverage for up to 24 months of active military service. This extension of coverage would initially increase net outlays from the Employees Life Insurance Fund because private insurers would most likely increase the premiums they charge the federal government. However, in later years, the Employees Life Insurance Fund would offset those additional costs by increasing the amount participating employees are required to contribute to the fund. CBO estimates that the net cost of implementing this section would be $1 million in 2008 and $1 million over the 2008-2017 period.

Housing Leases in Korea. DoD has authority under title 10 of the U.S. Code, section 2828, to lease 2,800 family housing units in Korea, at a maximum cost of $35,000 per unit per year. Under current law, that cost limit is adjusted for the change in the consumer price index since

2003, and for the change in the foreign currency exchange rate since 1988. Section 2812 would increase the unadjusted cost limit to $35,050 per unit.

The department has requested that the cost limit on the authority in current law be increased so that it can acquire family housing through build-to-lease contracts. In a build-to-lease agreement, the government contracts with a developer to build a specified number of housing units in a specified location for use by military personnel. According to DoD, the military services often agree to a fixed lease term—currently limited to a maximum of 15 years in Korea—with renewal options for additional periods of time. Those renewal options can extend the duration of the lease term to 30 years or more. Based on the government's commitment to lease the housing, the developer borrows money to pay for construction of the units, using the promised payments from the government to demonstrate to lenders a reliable source of income for debt service.

CBO believes that acquiring military housing through a build-to-lease contract is a governmental activity that uses a private-sector intermediary to serve as an instrument of the federal government by borrowing funds to finance the construction of housing on the government's behalf. Those build-to-lease agreements should be considered acquisitions rather than leases for several reasons. First, the housing would be constructed at the request of the government to fill an enduring need for housing for DoD personnel. Second, because the government would agree to lease the housing for up to 15 years, and may extend the lease term for additional years under renewal options, the government would likely consume most of the useful economic life of the housing. Third, the need for at least 15 years of government commitment to obtain financing indicates that there may not be a private-sector market for the new housing. Finally, the government would be the dominant or only source of income for such projects. Lease payments are made directly by the government to the housing developer. If the lease is terminated before the end of the fixed term, or before the end of any exercised lease options, the government is liable for early termination costs, which, under DoD's current practice, are not funded in the budget when the lease is signed. The federal government also agrees to pay rent on all the units it leases, regardless of whether they are occupied by DoD personnel or are vacant.

The acquisition cost of the housing that would be acquired using the authority is determined by calculating the present value of 15 years of lease payments less the portion of those payments needed for operating and maintenance costs. That amount should be recorded as budget authority in the year the lease is signed, and outlays should be recorded over the construction period. Instead, DoD treats such arrangements as operating leases, by recording each year's lease payments on an annual basis. (The department may not record any obligations in the year it enters a contract for the housing because such housing takes more than one year to build and the first payment would not be due until construction was completed.) By using the authority to incur an obligation in advance of appropriations, current law provides contract authority, which is a form of direct spending.

According to DoD, the lease payment under the current cost limit calculation do not provide enough income for housing developers in Korea to recover their construction costs during the initial 15-year term of the lease. Because it increases the cost limit by only $50 per unit, CBO believes that section 2812 is unlikely to facilitate additional build-to-lease contracts in Korea, and thus would have no effect. If such contracts were feasible under the increased limit, DoD could acquire housing worth $575 million, CBO estimates.

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

- Section 504 would clarify the maximum age of service for certain general and flag officers.

- Section 534 would set to 38 the maximum years of service for reserve officers in the grade of lieutenant general or vice admiral, aligning such limit with that for the active duty force.

- Section 652 would allow guardians or caretakers of dependent children to be designated beneficiaries under the Survivor Benefit Plan.

- Section 682 would change the treatment of overseas residence relating to certain immigration benefits for military spouses and children.

- Section 825 would extend by five years the authority for the Defense Advanced Research Projects Agency (DARPA) to provide services to nongovernmental organizations and enter into unconventional cooperative agreements with private contractors for research relating to the development of advanced weapons systems. This provision also would extend the authority for DARPA to collect and spend reimbursements for any services rendered.

- Section 934 would authorize DoD to operate a Western Hemisphere Center for Excellence in Human Rights. This provision would allow the center to accept and spend donations to help defray operating costs.

- Section 1024 would make permanent the authority of the Secretaries of the Army, Navy, and Air Force to accept gifts on behalf of members of the Armed Forces and of civilian employees of DoD who are injured in the line of duty.

- Section 1030 would prohibit DoD from selling parts for the F-14 fighter aircraft, except to museums or to other organizations in the United States that work to preserve F-14 fighter aircraft for historical purposes. (DoD can spend the proceeds from any such sales without future appropriation action.)

Asset Sales—National Defense Stockpile

Enacting the bill would lead to increased receipts from the sale of material in the National Defense Stockpile. Those additional sales would reduce direct spending by $409 million over the 2008-2012 period and by $582 million over the 2008-2015 period.

Section 1413 would increase by $129 million the target contained in the National Defense Authorization Act for Fiscal Year 2000 (Public Law 106-65; later revised by Public Laws 108-136 and 109-163) for continual sales of chromium and beryllium from the National Defense Stockpile. CBO estimates that the additional sales would begin in 2010 and that there would be sufficient quantities of those materials in the stockpile to complete those additional sales by 2012. Thus, CBO estimates that this section would increase receipts from stockpile sales by $129 million over the 2010-2012 period.

Section 1413 also would increase by $453 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, 109-163, and 109-364) for continual sales of tungsten from the National Defense Stockpile, and it would extend sales through fiscal year 2015. CBO estimates that there would be sufficient quantities of tungsten in the stockpile to achieve additional receipts of $50 million in 2008, $280 million over the 2008-2012 period, and $453 million over the 2008-2015 period.

In addition to the increased targets, section 1413 initially would limit the sales of ferromanganese from the National Defense Stockpile to no more than 50,000 tons in 2008. Additional sales of up to 50,000 tons of ferromangenese would be allowed if the market demand was sufficient. Based on recent sales, CBO estimates that the provision would not reduce sales because market demand would be sufficient to allow for the continued sales of ferromangenese at planned levels.

Section 1413 also would allow for additional sales of 500 tons of chrome metal (up from planned levels of 500 tons) if the market demand was sufficient. CBO estimates that this provision would have no significant budgetary effect because recent sales suggest that those additional sales would not occur.

Revenues

Sections 934 and 1024 would allow DoD to accept and spend gifts. Such donations are classified as revenues. CBO expects, however, that enactment of those sections would not have a significant effect on revenues.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative provisions that enforce the constitutional rights of individuals. CBO has determined that section 1022 would fall within that exclusion because it would amend the authority of the President to employ the armed services to protect individuals' civil rights. Therefore, CBO has not reviewed that section of the bill for mandates.

Other provisions of S. 1547 contain both intergovernmental and private-sector mandates as defined in UMRA but CBO estimates that the annual cost of those mandates would not exceed the thresholds established in UMRA ($66 million for intergovernmental mandates in 2007 and $131 million for private-sector mandates in 2007, adjusted annually for inflation).

Increasing the End Strength of the Armed Services

Sections 401 and 412 would increase the costs of complying with existing intergovernmental and private-sector mandates as defined in UMRA by increasing the number of servicemembers and reservists on active duty. Those additional servicemembers would be eligible for protection under the Servicemembers Civil Relief Act (SCRA) 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. SCRA also requires creditors to reduce the interest rate on servicemembers' obligations to 6 percent when such obligations predate active-duty service and allows courts to temporarily stay certain civil proceedings, such as evictions, foreclosures, and repossessions. Extending these existing protections would constitute intergovernmental and private-sector mandates and could result in additional lost revenues to government and private-sector entities.

The number of active-duty servicemembers covered by SCRA would increase by less than 1 percent in fiscal year 2008. CBO expects that relatively few of these servicemembers would take advantage of the deferrals in certain state and local tax payments; the lost revenues to those governments would be insignificant.

CBO does not have sufficient information to estimate precisely the increase in costs of existing private-sector mandates. Servicemembers' utilization of the various provisions of the SCRA depends on a number of uncertain factors, including how often and how long they are deployed. Nonetheless, because the increase in the number of active-duty servicemembers covered by SCRA would be less than 1 percent, CBO expects that the increased costs to the private sector caused by those new servicemembers utilizing SCRA would be small.

Prohibiting the Sale by Department of Defense of Parts for F-14 Fighter Aircraft

Section 1030 contains a private-sector mandate as defined by UMRA because it would prohibit the sale of any parts of the F-14 aircraft by the Department of Defense. It also would prohibit the United States government from issuing an export license for sale of F-14 aircraft parts. Those prohibitions would be a mandate upon U.S. persons or entities that purchased F-14 parts legally from the Department of Defense with the intention to resell the aircraft parts.

The cost of the mandate to the private sector, if any, would be the amount certain United States persons and entities have already paid to purchase the F-14 parts from the Department of Defense added to the foregone profit attributable to the prohibition of resale of the F-14 parts. From April 2006 to December 2006, F-14 parts were sold for a total of $38,000. As a result, CBO estimates that the cost, if any, to comply with that mandate would be minimal.

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 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.

PREVIOUS CBO ESTIMATES

On April 12, 2007, CBO transmitted a cost estimate for H.R. 1441, the Stop Arming Iran Act, as ordered reported by the House Committee on Foreign Affairs on March 27, 2007. Section 1030 of S.1547 is similar to H.R. 1441 and the estimated costs are the same for both provisions.

On May 14, 2007, CBO transmitted a cost estimate for H.R. 1585, the National Defense Authorization Act for Fiscal Year 2008, as reported by the House Committee on Armed Services. On June 12, CBO transmitted a cost estimate for H.R. 1585, the National Defense Authorization Act for Fiscal Year 2008, as passed by the House. Differences in the estimated costs of S. 1547 and the House-reported and House-passed versions of H.R.1585 reflect differences in the legislation, as well as different treatments of TRICARE For Life accrual payments, as discussed below.

S. 1547 and H.R. 1585 as passed by the House, would authorize different levels of appropriations but they nevertheless envision a similar overall level of funding—roughly $640 billion—for 2008. Specifically, S. 1547 would authorize appropriations totaling $629 billion, while the House-passed version of H.R. 1585 would authorize about $12 billion more than that figure, or $641 billion. The $12 billion difference, however, does not reflect a vastly different level of recommended funding. Rather, it primarily reflects different treatments of $11 billion in TRICARE For Life accrual payments that are part of DoD's budget; S. 1547 does not contain an authorization of appropriations for those payments, while H.R. 1585 implicitly does.

Those accrual payments, which are categorized as military personnel spending, will be made under current law regardless of whether or not they are authorized on an annual basis. Furthermore, the payments will be charged to the House and Senate Appropriations Committees and will count against their discretionary allocations as set forth in the most recent budget resolution.

Despite envisioning similar levels of overall defense funding, there is a notable difference in the authorizations in S. 1547 and H.R. 1585 as passed by the House. S. 1547 would authorize $128 billion for DoD's costs of military operations in Iraq and Afghanistan, or about $13 billion less than the amount in the House-passed act (which is about equal to the President's request.) In authorizing the lower amount, the Senate Committee on Armed Services states that it reallocated requested war-related authorizations—which the committee believes are not directly related to operations in Iraq and Afghanistan—into authorizations for DoD's "base budget accounts." As a result, the authorizations in S. 1547 for DoD's base budget are about $13 billion higher than in the House-passed version of H.R. 1585 (after making adjustments for the TRICARE For Life accrual payments discussed above.)

ESTIMATE PREPARED BY:

Federal Costs:
- Defense Outlays: Kent Christensen
- Military and Civilian Personnel: Matthew Schmit
- Military Construction and Multiyear Procurement: David Newman
- Military Retirement and Education: Mike Waters
- Health Programs: Michelle S. Patterson
- Aviation War-Risk Insurance: Megan Carroll
- Stockpile Sales: Raymond J. Hall
- Operation and Maintenance: Jason Wheelock
- Foreign Affairs: Sam Papenfuss

Impact on State, Local, and Tribal Governments: Neil Hood
Impact on the Private Sector: Victoria Liu

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis