



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 21, 2010

### **S. 3454** **National Defense Authorization Act for Fiscal Year 2011**

*As reported by the Senate Committee on Armed Services on June 4, 2010*

#### **SUMMARY**

S. 3454 would authorize appropriations totaling \$726 billion for fiscal year 2011 for the military functions of the Department of Defense (DoD), for certain activities of the Department of Energy (DOE), and for other purposes. That total includes \$158 billion for the cost of overseas contingency operations, primarily in Iraq and Afghanistan. In addition, S. 3454 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 outlays of \$715 billion over the 2011-2015 period.

The bill also contains provisions that would increase costs of discretionary defense programs in future years. Those provisions would affect force structure, DoD compensation and benefits, multiyear procurement authorities, border security activities, and various other programs. In total, such provisions would raise costs by an average of about \$3.8 billion annually from 2012 to 2015, assuming appropriation of the necessary amounts.

S. 3454 contains several provisions that would affect direct spending. CBO estimates that those provisions would increase direct spending by \$38 million over the 2011-2015 period and by \$31 million over the 2011-2020 period.<sup>1</sup>

Because enacting the legislation would affect direct spending, pay-as-you-go procedures apply.

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1. Different time periods are relevant for the purpose of enforcing the current pay-as-you-go rules in the Senate and the House of Representatives. CBO estimates that enacting S. 3454 would increase direct spending by \$38 million over the 2010-2014 period and \$33 million over the 2010-2019 period.

S. 3454 contains intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that the aggregate costs of the intergovernmental mandates would not exceed the threshold established in UMRA (\$70 million in 2010, adjusted annually for inflation). CBO cannot determine whether the costs to the private sector of complying with the mandates in the bill would exceed the annual threshold (\$140 million in 2010, adjusted annually for inflation).

## **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of S. 3454 is summarized in Table 1. Nearly all of the \$726 billion that would be authorized by the bill is for activities within budget function 050 (national defense). A small portion—\$71 million for the Armed Forces Retirement Home—falls within budget function 600 (income security).

## **BASIS OF ESTIMATE**

For this estimate, CBO assumes that S. 3454 will be enacted near the start of fiscal year 2011 and that the authorized amounts will be appropriated.

## **Spending Subject to Appropriation**

The bill would specifically authorize appropriations totaling \$725.8 billion for 2011. Of that amount, \$568.1 billion would be for authorizations of regular appropriations—for “base budget” costs not directly related to overseas contingency operations—as follows: \$550.3 billion for DoD, \$17.7 billion for DOE, and less than \$0.1 billion for the Armed Forces Retirement Home (see Table 2).

Compared with the 2010 appropriations enacted for DoD’s base budget, the \$550.3 billion that would be authorized for 2011 represents an increase of \$19.6 billion (3.7 percent). The categories of DoD spending that would receive the largest increases are operation and maintenance at \$16.2 billion (8.8 percent), and procurement at \$8.4 billion (8.0 percent). Funding authorized for military construction and family housing would decline by \$4.5 billion (19.5 percent)—largely because smaller amounts will be necessary to implement the most recent round of base closures—while authorizations for research and development would be reduced by \$3.3 billion (4.1 percent). Funding authorized for military pay and other programs would increase, on a net basis, by \$2.8 billion (2.0 percent).

For DOE, the \$17.7 billion that would be authorized for 2011 represents a \$1.1 billion (6.6 percent) increase over the amount appropriated for 2010.

**TABLE 1. BUDGETARY IMPACT OF S. 3454, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2011**

	By Fiscal Year, in Millions of Dollars					2011-2015
	2011	2012	2013	2014	2015	
<b>SPENDING SUBJECT TO APPROPRIATION</b>						
Authorization of Regular Appropriations for 2011, primarily for the Departments of Defense and Energy						
Authorization Level	568,106	0	0	0	0	568,106
Estimated Outlays	367,611	124,194	45,249	15,985	6,121	559,160
Authorization of Appropriations for Overseas Contingency Operations						
Authorization Level	157,648	0	0	0	0	157,648
Estimated Outlays	76,175	53,062	19,503	5,416	1,604	155,759
Total						
Authorization Level	725,753	0	0	0	0	725,753
Estimated Outlays	443,786	177,256	64,752	21,401	7,725	714,919
<b>CHANGES IN DIRECT SPENDING <sup>a</sup></b>						
Estimated Budget Authority	5	12	13	8	*	38
Estimated Outlays	5	12	13	8	*	38

Notes: The authorization levels in this table reflect amounts specifically authorized by the bill. The bill also implicitly authorizes some activities in 2012 and future years; 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.

Numbers may not sum to totals because of rounding; \* = less than \$500,000.

a. In addition to the changes in direct spending shown above, S. 3454 would have effects beyond 2015. CBO estimates that over the 2011-2020 period, the bill would increase direct spending by \$31 million (see Table 4).

The \$157.6 billion that would be authorized for 2011 overseas contingency operations—primarily for military operations in Iraq and Afghanistan—represents a decrease of about \$5.4 billion (4.1 percent) compared with the \$130 billion appropriated thus far for 2010, plus the \$33 billion in supplemental appropriations requested by the President and being considered by the Congress. Under S. 3454, contingency-related funding authorized for procurement and military personnel would decline by \$3.1 billion and \$1.6 billion, respectively, and authorizations for military construction and the working capital funds, combined, would decrease by \$1.6 billion. In the other direction, the authorized level for operations and maintenance would increase by \$0.8 billion.

**TABLE 2. SPECIFIED AUTHORIZATIONS IN S. 3454**

	By Fiscal Year, in Millions of Dollars					2011- 2015
	2011	2012	2013	2014	2015	
<b>Authorizations of Regular Appropriations</b>						
<b>Department of Defense</b>						
<b>Military Personnel <sup>a</sup></b>						
Authorization Level	138,541	0	0	0	0	138,541
Estimated Outlays	136,269	1,554	167	36	*	138,026
<b>Operation and Maintenance</b>						
Authorization Level	200,652	0	0	0	0	200,652
Estimated Outlays	144,761	41,992	9,119	2,136	764	198,772
<b>Procurement</b>						
Authorization Level	113,218	0	0	0	0	113,218
Estimated Outlays	28,183	40,691	24,945	10,410	4,183	108,412
<b>Research and Development</b>						
Authorization Level	76,799	0	0	0	0	76,799
Estimated Outlays	40,819	28,228	5,014	1,386	352	75,799
<b>Military Construction and Family Housing</b>						
Authorization Level	18,735	0	0	0	0	18,735
Estimated Outlays	3,081	6,853	5,073	2,099	844	17,950
<b>Revolving Funds</b>						
Authorization Level	2,369	0	0	0	0	2,369
Estimated Outlays	1,901	346	66	38	18	2,369
<b>General Transfer Authority</b>						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	560	-120	-240	-120	-40	40
<b>Subtotal, Department of Defense</b>						
Authorization Level	550,314	0	0	0	0	550,314
Estimated Outlays	355,574	119,544	44,144	15,985	6,121	541,368
<b>Atomic Energy Defense Activities</b>						
Authorization Level <sup>b</sup>	17,721	0	0	0	0	17,721
Estimated Outlays	11,976	4,640	1,105	0	0	17,721

(Continued)

**TABLE 2. CONTINUED**

	By Fiscal Year, in Millions of Dollars					2011- 2015
	2011	2012	2013	2014	2015	
Armed Forces Retirement Home						
Authorization Level	71	0	0	0	0	71
Estimated Outlays	61	10	0	0	0	71
Subtotal, Authorizations of Regular Appropriations						
Authorization Level	568,106	0	0	0	0	568,106
Estimated Outlays	367,611	124,194	44,249	15,985	6,121	559,160
Authorizations of Appropriations for Overseas Contingency Operations						
Military Personnel						
Authorization Level	15,276	0	0	0	0	15,276
Estimated Outlays	14,909	321	8	*	*	15,237
Operation and Maintenance						
Authorization Level	115,426	0	0	0	0	115,426
Estimated Outlays	56,282	41,588	12,344	3,088	895	114,197
Procurement						
Authorization Level	24,532	0	0	0	0	24,532
Estimated Outlays	4,248	10,177	6,693	2,172	658	23,948
Research and Development						
Authorization Level	660	0	0	0	0	660
Estimated Outlays	345	244	45	14	4	652
Military Construction						
Authorization Level	1,268	0	0	0	0	1,268
Estimated Outlays	122	492	384	159	63	1,220
Working Capital Funds						
Authorization Level	485	0	0	0	0	485
Estimated Outlays	129	270	69	13	4	485

(Continued)

**TABLE 2. CONTINUED**

	By Fiscal Year, in Millions of Dollars					2011- 2015
	2011	2012	2013	2014	2015	
Special Transfer Authority						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	140	-30	-40	-30	-20	20
Subtotal, Overseas Contingency Operations						
Authorization Level	157,648	0	0	0	0	157,648
Estimated Outlays	76,175	53,062	19,503	5,416	1,604	155,759
Total Specified Authorizations						
Authorization Level	725,753	0	0	0	0	725,753
Estimated Outlays	443,786	177,256	64,752	21,401	7,725	714,919

Notes: This table summarizes the authorizations of appropriations explicitly stated in the bill—in specified amounts. Various provisions of the bill also would authorize activities and provide authorities that would result in additional costs in 2011 and in future years. Because the bill would not specifically authorize appropriations to cover those costs, they are not reflected in this table. Rather, Table 3 contains the estimated costs of a select number of those provisions.

Numbers may not sum to totals because of rounding; \* = less than \$500,000.

- a. The authorization of appropriations in section 421 for military personnel includes \$10.9 billion for accrual payments for the TRICARE For Life program.
- b. This authorization is primarily for atomic energy activities within the Department of Energy.

S. 3454 also contains provisions that would increase the cost of discretionary defense programs in future years. In the limited time available, CBO has been able to estimate the potential cost of some, but not all, of those provisions. The costs of some of those provisions have historically been of interest to the Congress; their estimated costs are included in Table 3 and discussed below. Most of those provisions would affect end strength, military compensation, health benefits, and multiyear procurement authorities. Also provided in Table 3 are the costs of new or modified programs for which CBO was able to provide estimates in the time available. The following discussion does not address the timing of outlays from those estimated authorizations. All such spending would be subject to appropriation of the estimated amounts.

**Force Structure.** The bill would affect the force structure of the various military services by setting end-strength levels for 2011 and the minimum end-strength authorization in permanent law.

**TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN S. 3454**

	By Fiscal Year, in Millions of Dollars					2011-2015
	2011	2012	2013	2014	2015	
<b>FORCE STRUCTURE</b>						
Active-Duty End Strengths	29	56	613	1,184	1,196	3,078
Reserve Component End Strengths	32	62	62	63	65	284
Reserve Technicians End Strengths	20	40	41	42	43	186
Non-Dual Status Technicians	0	0	36	73	74	183
<b>COMPENSATION AND BENEFITS (DoD)</b>						
Expiring Bonuses and Allowances	1,834	836	319	353	163	3,505
Health Care Personnel	2	9	11	12	12	46
Other Military Compensation Provisions	9	20	9	6	4	48
<b>DEFENSE HEALTH PROGRAM</b>						
Civilian Health Professions Scholarships	1	4	7	9	9	30
TRICARE For Dependents Until Age 26	10	5	*	*	*	15
Prohibition on Fee Increase	12	0	0	0	0	12
<b>OTHER PROVISIONS <sup>a</sup></b>						
Multiyear Procurement	2,793	2,675	2,164	274	28	7,934
Border Security	750	765	780	795	815	3,905
IMPCA Programs	0	0	0	558	624	1,182
Mentor Protégé Program	27	27	28	28	29	139
African Cooperation Funds	3	3	3	3	3	15

Notes: For every item in this table, the 2011 levels are assumed to be included in amounts specifically authorized to be appropriated by the bill (and reflected in Tables 1 and 2). Amounts shown in this table for 2012 through 2015 are not included in Tables 1 or 2 because authorizations for those amounts would be covered by specific authorizations in future years.

Figures shown here may not sum to numbers in the text because of rounding; \* = less than \$500,000; IMPCA = International Materials Protection, Control, and Accounting.

- a. Title XXXIII would authorize the appropriation of such amounts as may be necessary to carry out the responsibilities of the Maritime Administration. This estimate does not assign any costs to title XXXIII because the bill restates the authority already contained in current law.

Under title IV, the authorized end strengths in 2011 for active-duty personnel and personnel in the selected reserves would total 1,432,400 and 846,200, respectively. Of those selected reservists, about 78,900 would serve on active duty in support of the reserves. In total, active-duty end strength would increase by 400 and selected-reserve end strength would increase by 1,700 when compared with levels authorized under current law for 2011.

*Active-Duty End Strength.* Section 401 would authorize 7,000 additional active-duty personnel for the Army, 500 additional active-duty personnel for the Air Force, and 100 fewer active-duty personnel for the Navy, compared with authorized end-strength levels for 2010; it would maintain the current authorized end strength for the Marine Corps. However, because the Army has temporary authority to exceed its 2010 authorized end-strength level by 30,000 personnel in 2011 and 2012, the increase under section 401 would not affect Army active-duty end-strength levels until 2013. CBO estimates that the net increase in active-duty personnel—an additional 400 in 2011 and 2012 and an additional 7,400 in 2013, 2014, and 2015—would increase costs to DoD by \$3.1 billion over the 2011-2015 period. Those costs include operation and maintenance costs for the additional personnel as well as costs of pay and benefits.

*Reserve Component End Strengths.* Sections 411 and 412 would authorize the end strengths for the reserve components, including those who serve on active duty in support of the reserves. Under this bill, the Air Force Reserve would experience an increase in end strength of 1,700, while the other reserve components would maintain the levels authorized in 2010. On net, the number of full-time reservists who serve on active-duty in support of the reserves would decline by 5 compared with authorized end-strength levels for 2010. 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 \$284 million over the 2011-2015 period.

*Reserve Technicians End Strengths.* Section 413 would authorize the minimum end-strength levels for dual-status military technicians, who are federal civilian personnel required to maintain membership in a selected reserve component as a condition of their employment. On net, the bill would increase the required number of technicians by 384 relative to the levels currently authorized. CBO estimates the costs in civilian salaries and expenses that would result from those additional military technicians would total \$186 million over the 2011-2015 period.

*Non-dual Status Technicians.* Section 524 would allow the Secretary of Defense to hire military technicians in a non-dual status as temporary replacements for dual-status technicians who have been mobilized to perform full-time reserve duty. Unlike dual-status technicians, non-dual-status technicians are not members of the Selected Reserve. Those temporary technicians would not count against the permanent limitation on the number of non-dual-status technicians. Under an emergency hiring authority delegated by

the Office of Personnel Management, the Army National Guard is currently employing about 920 more of such technicians than the maximum level of 1,600 for 2010. That emergency authority will expire at the end of fiscal year 2012.

Compared with the personnel level authorized in current law, CBO estimates that section 524 would authorize DoD to employ about 920 additional Army National Guard technicians in a temporary, non-dual status starting in 2013. CBO estimates the cost for those additional technicians would be \$183 million over the 2013-2015 period.

*Coast Guard Reserve End Strength.* The bill also would authorize an end-strength level of 10,000 servicemembers in 2011 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.** S. 3454 contains several provisions that would affect compensation and benefits for uniformed personnel. The bill would specifically authorize regular appropriations of \$138.5 billion for the costs of military pay and allowances in 2011. For related costs due to overseas contingency operations (primarily in Iraq and Afghanistan), the bill would authorize the appropriation of an additional \$15.3 billion for 2011.

*Expiring Bonuses and Allowances.* Sections 611 through 616 would extend for another year DoD's authority to enter into agreements to pay certain bonuses and allowances to military personnel. That authority is scheduled to expire on December 31, 2010. Some bonuses are paid in a lump sum, while others are paid in annual or monthly installments over the period of obligated service. Based on DoD's budget submission for fiscal year 2011, CBO estimates that extending those authorities for one year would cost \$3.5 billion over the 2011-2015 period.

*Health Care Personnel.* Sections 531 and 534 would increase certain benefits for servicemembers who are medical students. Section 531 would authorize pay-grade promotions for certain officers while attending medical school. Section 534 would allow servicemembers in their third or fourth year of medical school to receive scholarships to pay for remaining training toward their medical degree. Such students would also receive funds to repay existing loans related to their prior years of education. Based on information from DoD, CBO estimates that providing the additional benefits authorized under those two provisions would cost \$46 million over the 2011-2015 period.

*Other Military Compensation Provisions.* CBO estimates that certain other provisions in titles V and VI—sections 566 and 621—would increase DoD's military compensation costs by \$48 million over the 2011-2015 period.

**Defense Health Program.** Titles V and VII contain several provisions that would affect the health care benefits provided by DoD.

*Civilian Health Professions Scholarships.* Section 541 would create the Health Professions Scholarship and Financial Assistance Program for Civilians. Under this program, DoD would be authorized to award scholarships, stipends, and grants to cover education and living expenses for participating medical students in exchange for a commitment to serve in the civilian service of the United States. The authority to provide benefits under this section would expire September 30, 2015. Based on information from DoD, CBO estimates that providing those benefits would cost \$30 million over the 2011-2015 period.

*TRICARE for Dependents.* Section 702 would expand TRICARE eligibility to provide coverage, up to age 26, to the dependents of military personnel. Under current law, dependents lose their TRICARE eligibility when they reach the age of 21 (or 23 if they are enrolled in college). However, to participate in this extended coverage, beneficiaries would be required to pay premiums equal to the cost of the services provided. Because the premiums would offset the added costs to DoD of expanding coverage, CBO estimates the net cost to the government of this benefit would be insignificant over the long-run. DoD would incur some start-up costs related to outreach and changes to personnel databases. CBO estimates those costs would total about \$15 million over the 2011-2012 period, based on its analysis of start-up costs for the TRICARE Reserve Select Program.

*Prohibition on Fee Increase.* Section 701 would prohibit DoD from increasing the daily inpatient deductible under the TRICARE Standard health option.<sup>2</sup> Current law sets the daily maximum inpatient deductible under TRICARE Standard at \$535. However, as of October 1, 2010, the law requires DoD to increase that deductible to an amount equal to 25 percent of the cost of the provided care, which CBO estimates will be about \$675 per day, on average. Section 701 would extend the \$535 limit on the deductible through 2011.

Based on information from DoD, CBO estimates that beneficiaries who utilize the TRICARE Standard plan accumulate a total of about 325,000 inpatient days per year. However, after factoring in the use of other health insurance and the fact that out-of-pocket costs under TRICARE Standard are limited to \$3,000 per year, we estimate that only about 80,000 of those days would be affected by the higher deductible. Therefore, CBO estimates that capping the daily inpatient deductible under TRICARE Standard at \$535 through 2011 would require appropriations of \$12 million for that year.

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2. The military's health care program, TRICARE, comprises nine health plans that cover uniformed servicemembers, retirees, and their dependents in the United States and abroad. Three of the most commonly used plans are TRICARE Prime—a managed care option, TRICARE Standard—a traditional fee-for-service option, and TRICARE For Life—which provides wrap-around coverage for Medicare-eligible beneficiaries.

**Other Provisions.** Various other provisions would increase the cost of discretionary programs over the 2011-2015 period.

***Multiyear Procurement.*** Section 125 would authorize the Department of the Navy to enter into a multiyear procurement contract for F/A-18 E/F fighter/attack aircraft and EA-18G electronic attack aircraft. Multiyear procurement is a special contracting method authorized in current law (title 10, United States Code, section 2306b), which 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.

The President's budget included a request for \$8.5 billion to purchase 48 F/A-18 E/Fs and 36 EA-18Gs over the 2011-2013 period through a series of annual contracts. The Navy estimates that a multiyear contract for those same aircraft would save about \$600 million. Thus, CBO estimates that such a contract would require appropriations of \$7.9 billion over the 2011-2015 period. (The multiyear contract would also include purchases of 40 such aircraft in 2010 for which \$3.2 billion has already been appropriated.)

Multiyear contracts frequently include provisions that require DoD to pay for unrecovered fixed costs in the event that the contract is canceled before completion. In practice, DoD does not budget for, obtain, or obligate funds sufficient to pay for those contractual commitments at the time they are incurred. Thus, should the contract be cancelled at the end of the first year, the Navy could owe the contractor as much as \$100 million for unrecovered fixed costs; however, the Navy has not requested budget authority for that amount. The amount of cancellation liability would decline in subsequent years, as increasing portions of the fixed costs were covered by annual contract payments, falling to zero in the final year of the contract.

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 a future Congress to pay for decisions made today.

***Border Security.*** Section 1041 would require the Secretary of Defense to deploy at least 6,000 National Guard personnel to help U.S. Customs and Border Protection secure the southern border with Mexico. DoD would be required to maintain that level of support until the Secretary of Homeland Security and the governors of the border states certified

that operational control of the border with Mexico had been achieved. On the basis of costs of a similar operation in 2007, CBO estimates that such a deployment would require appropriations of \$3.9 billion over the 2011-2015 period.

*International Materials Protection, Control, and Accounting (IMPCA) Programs.* Section 3119 would extend by four years the authority to provide support to Russia and other countries to secure and eliminate nuclear weapons and to install detection equipment at international crossing points in those regions. That authority is scheduled to expire in fiscal year 2013. These programs are managed by the National Nuclear Security Administration. Based on information from the Department of Energy, CBO estimates that extending this authority would require appropriations of about \$1.2 billion in 2014 and 2015; most of that amount would go towards installing nuclear detection equipment.

*Mentor Protégé Program.* Section 853 would extend DoD's Mentor Protégé Program through the end of fiscal year 2015. The intent of the program is to encourage improvement in the business practices and technical capabilities of small disadvantaged businesses, including organizations employing the severely disabled, businesses owned by women and service-disabled veterans, and small businesses located in historically underutilized business zones (HUBzones). Under the program, a mentor firm that provides technical and business assistance to a protégé firm is eligible to receive reimbursement from DoD for costs incurred for providing assistance or credit towards subcontracting goals required under certain federal contracts. CBO estimates that implementing this provision would require appropriations of \$139 million over the 2011-2015 period. CBO's estimate is based on the Mentor Protégé Program's funding level in 2010 (\$27 million), adjusted annually for inflation.

*African Cooperation Funds.* Section 1204 would authorize the military services to pay certain expenses of military officers and students of African countries to promote African cooperation. For example, such funds could be used to pay for the travel, subsistence, and translation services that would enable African officers or students to visit the United States or U.S. military bases abroad to participate in exchanges, seminars, conferences, briefings, orientation visits, or similar activities. This authority would be similar to authority provided for Latin American countries under current law. According to DoD, the military services spend \$3 million to \$5 million a year on authorized expenses that advance cooperation between the United States and Latin American countries. CBO expects that a comparable amount would be needed for a similar program of African cooperation. On that basis, CBO estimates that paying these expenses would require appropriations of about \$15 million over the 2011-2015 period.

## **Direct Spending and Revenues**

Several provisions in S. 3454 would affect direct spending. CBO estimates that those provisions would increase direct spending by \$31 million over the 2011-2020 period (see Table 4).

**Minimum Service for Retirement as an Officer.** Officers who began their military career as enlisted servicemembers must complete at least 10 years of commissioned service in order to retire as an officer. Those with less than 10 years of commissioned service receive retirement annuities based on the highest enlisted grade the member achieved. Section 506 would give the service secretaries the authority to retire members as officers with a minimum of eight years of commissioned service. This authority would apply to fiscal years 2011 through 2013 only.

Based on information from DoD, CBO estimates that about 200 officers per year would be allowed to retire under this authority over the 2011-2013 period. Because those officers would retire earlier than they otherwise would have, section 506 would initially increase military retirement costs. Savings would accrue in later years because those retiring early would accumulate fewer years of service and would therefore accept smaller annuities. On net, CBO estimates that section 506 would increase costs for military retirement by \$25 million over the 2011-2020 period.

**Authority to Spend Landing Fees.** Section 2822 would allow the military departments to retain and spend fees collected from civilian aviators who utilize military airfields. Under temporary authority that expires after fiscal year 2010, DoD can use those fees to defray the costs of operating and maintaining the airfields where the fees are collected. Thereafter, any such amounts will be deposited in the Treasury as miscellaneous receipts, and will be unavailable for obligation without a subsequent appropriation. Section 2822 would provide permanent authority to retain and spend those fees, leading to an increase in direct spending. Information from the Department of Defense indicates that those receipts total almost \$1 million annually. Thus, section 2822 would increase direct spending by \$10 million over the 2011-2020 period, CBO estimates.

**Retirement Age of Certain Medical Professionals.** Section 507 would allow certain medical professionals (to be designated by the Secretary of Defense) to remain in an active status until age 68. Currently, they must retire at age 62. CBO estimates that this change would decrease spending for military retirement because some members would begin receiving retirement annuities at a later date than they otherwise would have. Based on information from DoD, we estimate that about five officers each year would delay their retirements by an average of two years and would forgo about \$80,000 in annuities for each of those years. The annual savings would decrease over time, however, as those officers would receive larger annuities when they retire. In total, CBO estimates this section would reduce net direct spending for military retirements by \$4 million over the 2011-2020 period.

**TABLE 4. ESTIMATED IMPACT OF S. 3454 ON DIRECT SPENDING**

	By Fiscal Year, in Millions of Dollars										2011-	2011-
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2015	2020
<b>Minimum Service for Retirement as an Officer</b>												
Estimated Budget Authority	4	11	13	8	*	-2	-2	-2	-2	-3	36	25
Estimated Outlays	4	11	13	8	*	-2	-2	-2	-2	-3	36	25
<b>Authority to Spend Landing Fees</b>												
Estimated Budget Authority	1	1	1	1	1	1	1	1	1	1	5	10
Estimated Outlays	1	1	1	1	1	1	1	1	1	1	5	10
<b>Retirement Age of Certain Medical Professionals</b>												
Estimated Budget Authority	*	*	-1	-1	-1	-1	*	*	*	*	-3	-4
Estimated Outlays	*	*	-1	-1	-1	-1	*	*	*	*	-3	-4
<b>Total Changes in Direct Spending</b>												
Estimated Budget Authority	5	12	13	8	*	-2	-1	-1	-1	-2	38	31
Estimated Outlays	5	12	13	8	*	-2	-1	-1	-1	-2	38	31

Note: Numbers may not sum to totals because of rounding; \* = between -\$500,000 and \$500,000.

**Other Provisions.** The following provisions would have an insignificant effect on direct spending, primarily because they would affect few individuals or because they authorize both the collection and spending of funds so that the net budgetary impact would be small.

- Section 343 would extend through 2014 the authority of the Defense Logistics Agency (DLA) to provide logistics support to weapon systems contractors. DLA is allowed to retain and spend amounts collected for providing such services.
- Section 344 would allow the federal government to confiscate privately held items that were at one time the property of the DoD, if the private possession of those items endangers national security, public health, or safety. It would require DoD to reimburse individuals for the value of those articles if they were lawfully acquired.
- Section 348 would allow DoD to retain and spend fees collected for transporting civilian passengers and cargo when such transportation is provided in response to an emergency, or in response to a request for humanitarian assistance.

- Section 571 would authorize the service secretaries to issue contingent disability ratings to members who are otherwise fit for duty. Such authority could result in a small number of additional disability retirements.
- Section 701 would prohibit DoD from increasing the daily inpatient deductible under the TRICARE Standard health benefit. This prohibition would increase mandatory health care spending for certain TRICARE beneficiaries who live overseas, as well as for former members of the Coast Guard and other uniformed services.
- Section 702 would require the Secretary of Defense to establish a new TRICARE benefit for dependents of current and former members who are under the age of 26. The Secretary would be required to charge a premium that would cover the cost of the new benefit and would be allowed to spend those proceeds without further appropriation.

## PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table.

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### CBO Estimate of Pay-As-You-Go Effects for S. 3454, as reported by the Senate Committee on Armed Services on June 4, 2010

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	By Fiscal Year, in Millions of Dollars												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2010-2015	2010-2020
<b>NET INCREASE OR DECREASE (-) IN THE DEFICIT</b>													
Statutory Pay-As-You-Go Impact	0	5	12	13	8	0	-2	-1	-1	-1	-2	38	31

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## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 3454 contains intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act. CBO estimates the costs of the intergovernmental mandates would not exceed the threshold established in UMRA (\$70 million in 2010,

adjusted annually for inflation). CBO cannot determine whether the costs to the private sector would exceed the annual threshold (\$140 million in 2010, adjusted annually for inflation).

### **Increasing the End Strength of Active Duty Forces**

Section 401 would increase the costs of complying with existing intergovernmental and private-sector mandates by increasing the number of servicemembers on active-duty by 400 starting in 2011 and by a total of 7,400 starting in fiscal year 2013. Those additional servicemembers would be eligible for existing protections under the Servicemembers Civil Relief Act (SCRA).

SCRA allows servicemembers to maintain a single state of residence for purposes of paying state and local personal income taxes and to request deferrals for certain state and local fees. CBO estimates that the additional cost of those mandates on state and local governments would be small.

SCRA also requires creditors to reduce the interest rate on servicemembers' loan obligations to 6 percent when the acquisition of such obligations predates active-duty service, allows courts to temporarily stay certain civil proceedings, such as evictions, foreclosures, and repossessions, and precludes the use of a servicemember's personal assets to satisfy the member's trade or business liability while he or she is in military service.

CBO does not have sufficient information to estimate precisely the increased costs of complying with these provisions in SCRA. 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. While some of the SCRA protections might affect many servicemembers, the cost per person could be relatively small. On the other hand, other SCRA protections—such as precluding the use of a servicemember's personal assets to satisfy certain liabilities—could have relatively high per-person costs even though they affect a small number of servicemembers. Because of these uncertainties, CBO cannot determine whether the costs to private-sector entities would exceed the annual threshold.

### **Preemptions of State Law**

Section 716 would authorize health care professionals who are members of the National Guard and who are serving in response to actual or potential disasters to practice in military and civilian health care facilities regardless of state licensing laws. That preemption of state laws would impose an intergovernmental mandate as defined in UMRA, but CBO estimates that the cost of complying with the mandate would be small.

## **Providing Benefits to State and Local Governments**

The bill would provide assistance to state, local, and tribal governments that participate in emergency management activities or that provide educational services to dependents of members of the Armed Forces and DoD's civilian employees. Any costs to those governments would be incurred voluntarily as conditions of receiving federal assistance.

## **PREVIOUS CBO ESTIMATE**

On May 26, 2010, CBO transmitted a cost estimate for H.R. 5136, the National Defense Authorization Act for 2011, as reported by the House Committee on Armed Services on May 21, 2010. Differences in the estimated costs of S. 3454 and H.R. 5136 reflect differences between the two versions of the legislation.

For 2011, both S. 3454 and H.R. 5136 would authorize a similar amount (nearly \$726 billion) for DoD and the atomic energy activities within DOE. However, the bills differ in how much would be authorized for costs associated with overseas contingency operations (OCO) versus costs arising from "base budget" programs and activities. For OCO, the Senate bill would authorize \$157.6 billion, or \$1.7 billion less than the House bill, while for DoD and DOE base budget costs, S. 3454 would authorize \$568.0 billion, or \$1.5 billion more than the House bill.

For additional 2010 costs associated with OCO and disaster relief efforts that DoD provided in Haiti, the Senate bill would authorize no funding while the House bill would authorize \$33.7 billion.

Both bills contain provisions that would affect direct spending. Over the 2011-2020 period, S. 3454 would increase direct spending by \$31 million, while H.R. 5136 would decrease direct spending by \$2 million. In addition, H.R. 5136 would lower revenues by \$2 million during that 10-year period; S. 3454 would not affect revenues.

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