113TH CONGRESS 1st Session | HOUSE OF REPRESENTATIVES | REPT. 113–102 Part 2

NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2014

JUNE 11, 2013.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MCKEON, from the Committee on Armed Services, submitted the following

SUPPLEMENTAL REPORT

[To accompany H.R. 1960]

[Including cost estimate of the Congressional Budget Office]

This supplemental report shows the cost estimate of the Congressional Budget Office with respect to the bill (H.R. 1960), as reported, which was not included in part 1 of the report submitted by the Committee on Armed Services on June 7, 2013 (H. Rept. 113–102, pt. 1).

CONGRESSIONAL BUDGET OFFICE ESTIMATE

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the cost estimate prepared by the Congressional Budget Office and submitted pursuant to section 402 of the Congressional Budget Act of 1974 is as follows:

JUNE 11, 2013.

Hon. HOWARD P. "BUCK" MCKEON,
Chairman, Committee on Armed Services,
U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1960, the National Defense Authorization Act for Fiscal Year 2014.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is David Newman.

Sincerely,

DOUGLAS W. ELMENDORF,
Director.

Enclosure.

81–414

H.R. 1960—National Defense Authorization Act for Fiscal Year 2014

Summary: H.R. 1960 would authorize appropriations totaling $632 billion for fiscal year 2014 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 $86 billion for the cost of overseas contingency operations, primarily in Afghanistan. In addition, H.R. 1960 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 $618 billion over the 2014–2018 period.

The bill also contains provisions that would increase or decrease the costs of defense programs funded through discretionary appropriations in 2015 and future years. Those implicit authorizations would affect force structure, DoD compensation and benefits, DoD's use of multiyear procurement authority, and other programs and activities. CBO has analyzed the costs of a select number of those authorizations and estimates they would, on a net basis, lower the amount of appropriations needed to implement defense programs relative to current law by about $9 billion over the 2015–2018 period. Those savings are not included in the total amounts of outlays in the previous paragraph because funding for those activities would be covered by specific authorizations in future years.

In addition, H.R. 1960 contains provisions that would affect direct spending. CBO estimates that, on net, those provisions would decrease direct spending by $18 million over the 2014–2018 period and by $2 million over the 2014–2023 period. Enacting the bill would have an insignificant effect on revenues. Because enacting the legislation would affect direct spending, pay-as-you-go procedures apply.

The bill would impose intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) on mortgage lending institutions and state governments. CBO estimates that the costs to public entities of complying with the mandates would be small and well below the annual threshold established in UMRA for intergovernmental mandates ($75 million in 2013, adjusted annually for inflation). CBO estimates that the costs to private entities of complying with the mandate would probably fall below the annual threshold established in UMRA for private-sector mandates ($150 million in 2013, adjusted annually for inflation).

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 1960 is summarized in Table 1. Almost all of the $632 billion that would be authorized by the bill is for activities within budget function 050 (national defense). Some authorizations, however, fall within other budget functions, including: $219 million for cemetery expenses and for activities within the Department of Veterans Affairs (function 700—veterans benefits and services); $173 million for the Maritime Administration (function 400—transportation); $68 million for the Armed Forces Retirement Home (function 600—income security); $20 million for the Naval Petroleum Reserves (function 270—energy); and an estimated $20 million—over the 2015–2018 period—primarily for programs within the Department of the Interior (function 300—natural resources and environment).

The provisions that would affect direct spending are primarily for activities within budget functions 050, 400, 600, 700, 550 (health), and 650 (Social Security).

TABLE 1—BUDGETARY IMPACT OF H.R. 1960, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2014

	By fiscal year, in millions of dollars—					
	2014	2015	2016	2017	2018	2014–2018
SPENDING SUBJECT TO APPROPRIATION						
Specified Authorization of Regular Appropriations for 2014, Primarily for the Departments of Defense and Energy						
Authorization Level	545,349	0	0	0	0	545,349
Estimated Outlays	346,613	116,014	43,302	19,336	8,122	533,387
Estimated Authorization of Regular Appropriations for 2014 for Accrual Payments [a]						
Estimated Authorization Level	580	0	0	0	0	580
Estimated Outlays	580	0	0	0	0	580
Specified Authorization of Appropriations for Overseas Contingency Operations						
Authorization Level	85,766	0	0	0	0	85,766
Estimated Outlays	43,345	27,417	9,531	3,179	813	84,284
Other Authorizations of Appropriations [b]						
Estimated Authorization Level	0	11	3	3	3	20
Estimated Outlays	0	9	4	3	3	19
Total						
Estimated Authorization Level	631,695	11	3	3	3	631,715
Estimated Outlays	390,538	143,440	52,837	22,518	8,938	618,270
CHANGES IN DIRECT SPENDING [c]						
Estimated Budget Authority	−28	−37	4	1	5	−55
Estimated Outlays	−26	−27	14	11	10	−18

Notes: Except as noted below, the authorization levels in this table reflect amounts that would be specifically authorized by the bill. The bill also would implicitly authorize some defense activities in 2015 and future years; those authorizations are not included above (but estimates for a select number of them 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.

a. This authorization reflects CBO's estimate of the added cost of certain accrual payments required under current law but not fully reflected in the amounts specifically authorized by the bill.

b. For 2015, this authorization level has two components: an estimated $8 million for extending certain benefits to federal civilian workers who perform official duty in a combat zone and are employed by departments and agencies other than DoD; and an estimated $3 million for Department of Interior activities related to the Sikes Act. For 2016 to 2018, the authorization levels reflect estimates for implementing the Sikes Act. (Current law contains authorizations for those activities in 2014; thus, no authorizations for that year are reflected here.)

c. In addition to the changes in direct spending shown above, H.R. 1960 would have effects beyond 2018. CBO estimates that over the 2014–2023 period, H.R. 1960 would decrease direct spending by $2 million (see Table 4).

Basis of estimate: For this estimate, CBO assumes that H.R. 1960 will be enacted near the start of fiscal year 2014 and that the authorized and estimated amounts will be appropriated.

Spending Subject to Appropriation

The bill would authorize appropriations for 2014 totaling $632 billion, of which $546 billion would be authorizations of regular appropriations for "base budget" costs (not directly related to overseas contingency operations). Of the funding that would be authorized for base budget costs, nearly all ($545 billion) would be specifically authorized as follows: $527 billion for DoD and $18 billion for atomic energy defense activities within DOE and for various other programs (see Table 2).

The funding that would be authorized for DoD's base budget represents an increase of $32 billion (7 percent) relative to appropriations enacted for 2013 and adjusted to reflect the effects of the March 2013 sequestration. Authorized funding would increase for all major categories of spending: operation and maintenance would increase by $15 billion (8 percent), procurement by $10 billion (11 percent), research and development by $5 billion (7 percent), military personnel by $2 billion (2 percent), and military construction and family housing by $1 billion (11 percent). For those comparisons, the amount authorized for DoD's base budget also reflects CBO's estimate of the additional amount needed—$580 million—to fully fund certain accrual payments required under current law but not fully reflected in the amounts specifically authorized by the bill.

For DOE and other programs, the $18 billion that would be authorized for 2014 represents a $2 billion (10 percent) increase over the level appropriated for 2013, adjusted to reflect the March sequestration.

The $86 billion that would be authorized for 2014 overseas contingency operations represents a $3 billion (4 percent) increase relative to the post-sequestration amounts for 2013. Authorized levels would increase by $10 billion (17 percent) for operation and maintenance, but would decrease by $4 billion (31 percent) and $2 billion (22 percent) for military personnel and procurement, respectively. Changes in other accounts would be less than $0.1 billion.

TABLE 2—SPECIFIED AUTHORIZATIONS IN H.R. 1960

	By fiscal year, in millions of dollars—					
	2014	2015	2016	2017	2018	2014–2018
Authorization of Regular Appropriations						
Department of Defense						
Military Personnel [a]						
Authorization Level	136,896	0	0	0	0	136,896
Estimated Outlays	127,490	8,126	587	38	0	136,241
Operation and Maintenance						
Authorization Level	208,558	0	0	0	0	208,558
Estimated Outlays	149,151	43,309	9,453	2,402	823	205,138
Procurement						
Authorization Level	100,723	0	0	0	0	100,723
Estimated Outlays	21,261	31,245	23,853	13,405	5,350	95,114
Research and Development						
Authorization Level	68,079	0	0	0	0	68,079
Estimated Outlays	33,444	24,604	5,075	2,234	1,318	66,675
Military Construction and Family Housing						
Authorization Level	10,640	0	0	0	0	10,640
Estimated Outlays	1,249	3,387	3,241	1,258	636	9,771
Revolving Funds						
Authorization Level	2,277	0	0	0	0	2,277
Estimated Outlays	1,853	334	48	27	10	2,272
General Transfer Authority						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	175	−70	−53	−35	−17	0
Subtotal, Department of Defense						
Authorization Level	527,173	0	0	0	0	527,173
Estimated Outlays	334,623	110,935	42,204	19,329	8,120	515,211
Atomic Energy Defense Activities						
Authorization Level [b]	17,696	0	0	0	0	17,696
Estimated Outlays	11,600	5,008	1,082	4	2	17,696
Other Programs						
Authorization Level [c]	480	0	0	0	0	480
Estimated Outlays	390	71	16	3	0	480

TABLE 2—SPECIFIED AUTHORIZATIONS IN H.R. 1960—Continued

	By fiscal year, in millions of dollars—					
	2014	2015	2016	2017	2018	2014–2018
Subtotal, Authorization of Regular Appropriations						
Authorization Level	545,349	0	0	0	0	545,349
Estimated Outlays	346,613	116,014	43,302	19,336	8,122	533,387
Authorization of Appropriations for Overseas Contingency Operations						
Military Personnel						
Authorization Level [a]	9,853	0	0	0	0	9,853
Estimated Outlays	9,222	602	5	1	0	9,830
Operation and Maintenance						
Authorization Level	68,362	0	0	0	0	68,362
Estimated Outlays	32,151	24,116	7,919	2,641	635	67,462
Procurement						
Authorization Level	7,169	0	0	0	0	7,169
Estimated Outlays	1,743	2,598	1,561	530	183	6,615
Research and Development						
Authorization Level	117	0	0	0	0	117
Estimated Outlays	55	45	10	3	1	114
Working Capital Funds						
Authorization Level	265	0	0	0	0	265
Estimated Outlays	99	86	58	19	1	263
Special Transfer Authority						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	75	−30	−23	−15	−8	0
Subtotal, Overseas Contingency Operations						
Authorization Level	85,766	0	0	0	0	85,766
Estimated Outlays	43,345	27,417	9,531	3,179	813	84,284
Total Specified Authorizations						
Authorization Level	631,115	0	0	0	0	631,115
Estimated Outlays	389,958	143,431	52,833	22,515	8,935	617,671

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 2015 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.

a. The authorizations of appropriations for military personnel (in sections 421 and 1505) include $6,677 million and $164 million, respectively, for accrual payments to the Medicare-Eligible Retiree Health Care Fund. CBO estimates, however, that section 421 understates—by $580 million—the amount required for those payments, thus that amount has been added to the estimated cost of the bill as reflected in Table 1.

b. This authorization is primarily for atomic energy activities within the Department of Energy.

c. This authorization is for veterans benefits and services ($219 million), the Maritime Administration ($173 million), the Armed Forces Retirement Home ($68 million), and the Naval Petroleum Reserves ($20 million). The authorized level reflected in this estimate for the Maritime Administration does not include the amount specified in the bill for payments to shipping companies under the maritime security program because that program is authorized under current law for 2014.

H.R. 1960 also contains provisions that would affect the cost of various discretionary programs in future years. Most of those provisions would change end strength, military compensation and benefits, and acquisition programs using multiyear procurement authorities. The estimated effects of a select number of those provisions are shown in Table 3 and discussed below. The following discussion does not address the timing of outlays from those estimated authorizations. All such spending would be subject to appropriations action consistent with the bill.

Force Structure. The bill would affect the force structure of the various military services by setting end-strength levels for 2014 and modifying the minimum end-strength levels authorized in permanent law.

Under title IV, the authorized end strengths in 2014 for active-duty personnel and personnel in the selected reserves would total

1,361,400 and 842,700, respectively. Of those selected reservists, 78,386 would serve on active duty in support of the reserves. In total, active-duty end strength would decrease by 40,160 and selected-reserve end strength would decrease by 8,180 when compared with levels authorized under current law for 2014. The specified end-strength levels for each component of the armed forces are detailed below.

Active-Duty End Strengths. Compared with end-strength levels authorized under current law for 2014, section 401 would authorize reductions in active-duty personnel across three of the four services: 32,100 fewer for the Army; 7,100 fewer for the Marine Corps; and 1,860 fewer for the Air Force. In contrast, the Navy would increase strength by 900. CBO estimates that the total net reduction in active-duty personnel of 40,160 servicemembers would decrease costs to DoD by $24.9 billion over the 2014–2018 period, assuming appropriations are reduced by the same amount. Those decreases reflect reductions in pay and benefits from fewer personnel, as well as reductions in costs for operation and maintenance.

Selected-Reserve End Strengths. Sections 411 and 412 would authorize the end strengths for reserve components, including those who serve on active duty in support of the reserves. Under this bill, four of the six reserve components would experience decreases in end strength: 4,000 fewer for the Army National Guard, 3,400 fewer for the Navy Reserve, 300 fewer for the Air National Guard, and 480 fewer for the Air Force Reserve. The other reserve components would see no change to the levels already authorized for 2014. Those numbers include a small net increase (21 reservists) in the number of full-time reservists who serve on active duty in support of the reserves compared with the authorized end-strength levels for 2014. CBO estimates that the net result of implementing those provisions would be a decrease in costs for salaries and expenses for selected reservists of $1.1 billion over the 2014–2018 period, assuming appropriations are reduced by the same amount.

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. The bill would lower the minimum number of technicians required by 276 relative to the levels currently authorized. CBO estimates that such a reduction would decrease costs for civilian salaries and expenses by $131 million over the 2014–2018 period.

TABLE 3—ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN H.R. 1960

	By fiscal year, in millions of dollars—					
	2014[a]	2015	2016	2017	2018	2014–2018
	FORCE STRUCTURE					
Active-Duty End Strengths	−3,037	−4,808	−5,468	−5,712	−5,900	−24,925
Selected-Reserve End Strengths	−91	−203	−252	−281	−289	−1,116
Reserve Technicians End Strengths	−13	−28	−29	−30	−31	−131
Active Status for Inactive National Guard Members	8	26	44	64	63	205
	COMPENSATION AND BENEFITS					
Expiring Bonuses and Allowances	935	582	336	293	150	2,296

TABLE 3—ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN H.R. 1960—Continued

	By fiscal year, in millions of dollars—					
	2014 [a]	2015	2016	2017	2018	2014–2018
TRICARE Prime Service Areas	164	154	146	139	132	735
Civilian Benefits in a Combat Zone, Department of Defense [b]	0	72	0	0	0	72
OTHER PROVISIONS						
Multiyear Procurement Contracts						
C–130J Aircraft Variants	1,594	1,044	1,815	800	537	5,789
E–2D Aircraft	965	935	981	1,003	699	4,582
Ground-based Interceptors	367	364	375	384	393	1,883
East Coast Missile Defense Site	700	700	700	100	100	2,300
Increased Cost Cap for CVN–78 Aircraft Carrier	132	777	0	0	0	909
Repair of Vessels in Foreign Shipyards	36	36	37	38	39	186
Incrementally Funded Construction Projects	373	195	0	0	0	568
Mental Health Assessments	25	45	45	45	50	210
Sikes Act, Department of Defense [b]	0	2	2	2	2	6

Notes: Amounts shown in this table for 2015 through 2018 are not included in amounts that would be specifically authorized by the bill and would be covered by specific authorizations for defense programs in future years (and therefore are not reflected in Tables 1 and 2).

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

a. Amounts shown in this table for 2014 are included in amounts specifically authorized to be appropriated by the bill (as reflected in Table 2 and summarized in Table 1).

b. This provision also would increase costs for agencies other than DoD. Those costs are included in Table 1 under ''Other Authorizations of Appropriations.''

Coast Guard Reserve End Strength. The bill also would authorize an end-strength level of 9,000 servicemembers in 2014 for the Coast Guard Reserve. Because this authorization is the same as that under current law, CBO does not estimate any change in costs for this provision.

Active Status for Inactive National Guard Members. Section 513 would provide temporary authority to create a new active status for certain members of the inactive National Guard (ING). Members transferred to that status would continue to receive their current level of pay and benefits; however, they would no longer count towards the end strength level for Selected Reserve Personnel. The bill would limit the number of guardsmen in the new active status to 4,000 at any time.

Based on information from DoD, CBO expects that the Army National Guard (ARNG) would use this authority to transfer to the new status soldiers who are not eligible to be deployed because they are being evaluated under the Integrated Disability Evaluation System (IDES). As of April of this year, there were a little over 4,000 ARNG members in IDES being evaluated for their injuries or illnesses to determine whether they will return to duty or be discharged.

Based on information from DoD, CBO estimates that the ARNG would implement this authority starting in April of 2014, and that the number of members on the active status list of the ING would grow from about 1,000 members in 2014 to 4,000 by the end of 2017. That number would then decline to zero by December 31, 2018, when the authority would expire. By omitting those members of the ARNG from counting toward Selected Reserve end strength set in section 411 of this bill, and thus making room under the limit to hire additional part-time ARNG members, CBO estimates that this provision would effectively raise the authorized end strength by that same amount. CBO estimates that the resulting increase in ARNG personnel would cost $205 million over the 2014–2018 period.

Compensation and Benefits. H.R. 1960 contains several provisions that would affect compensation and benefits for uniformed personnel and civilian employees of DoD. The bill would specifically authorize regular appropriations of $137 billion for the costs of military pay and allowances in 2014. For related costs resulting from overseas contingency operations (primarily in Afghanistan), the bill would authorize the appropriation of an additional $10 billion for 2014.

Expiring Bonuses and Allowances. Sections 611 through 616 would extend for another year DoD's authority to enter agreements to pay certain bonuses and allowances to military personnel. The authority to enter into such agreements is currently scheduled to expire on December 31, 2013. 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 2014, CBO estimates that extending that authority for one year would cost $2.3 billion over the 2014–2018 period.

TRICARE Prime Service Areas. At the beginning of fiscal year 2014, several TRICARE Prime Service areas are scheduled to be eliminated. About 170,000 Prime beneficiaries will need to convert to TRICARE Standard, obtain a waiver to use TRICARE Prime providers in a nearby service area, or use some other form of health coverage (such as employer sponsored insurance).[1] Section 711 would require DoD to continue to make the TRICARE Prime benefit available to beneficiaries currently residing in those affected areas. DoD would be allowed to phase-out Prime in those areas as those beneficiaries either move, opt out of Prime, or reach the age of eligibility for TRICARE-for-Life.

Because it has low out-of-pocket costs, TRICARE Prime is typically more expensive to DoD than other health options, including TRICARE Standard; thus, any attempt to maintain or expand enrollment in TRICARE Prime would result in added costs to the government. Based on an analysis of the proximity of the affected Prime service areas to areas unaffected by the new policy, CBO estimates that about a third of the affected beneficiaries will seek the waivers available under current law and travel the added distance to remain in Prime. Therefore, the net cost to the government of health benefits for those people will remain approximately the same. For the other two-thirds of that population, CBO estimates that the requirement to maintain the Prime benefit would result in added costs for the government.

The average annual cost for a Prime beneficiary is about $5,400. CBO estimates that eliminating Prime would decrease that cost by over 25 percent. That estimate takes into account the lower costs for Standard, as well as the possibility that those beneficiaries would begin using another source of funding—such as employer-sponsored insurance—for part or all of their health care costs. Initially, CBO estimates that enacting section 711 would cost DoD

[1] 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. Two of the most commonly used plans are TRICARE Prime—a managed care option, and TRICARE Standard—a fee-for-service option. Medicare-eligible TRICARE beneficiaries use the TRICARE-for-Life benefit, which acts as Medicare wrap-around coverage.

more than $150 million annually, although costs would decrease over time as the affected beneficiaries drop out of Prime for various reasons. In total, CBO estimates that implementing section 711 would increase the need for appropriations by $735 million over the 2014–2018 period.

In addition, CBO estimates section 711 would increase mandatory spending for retiree health benefits of the Other Uniformed Services. A discussion of those costs can be found in the "Direct Spending" section of this estimate.

Civilian Benefits in a Combat Zone. Section 1102 would extend for one year the authority to grant certain benefits to federal civilian employees who perform official duty in a combat zone. Those benefits, which expire under current law on September 30, 2014, include death gratuities, paid leave and travel for one trip home, and up to three leave periods per year for rest and recuperation. Based on information from DoD and the Office of Personnel Management, CBO estimates that about 5,000 civilian employees of DoD and 600 employees of other federal agencies will work in a designated combat zone in 2015 and, under this provision, would receive an average benefit that would cost about $14,500 a year. Thus, CBO estimates that in 2015, section 1102 would increase the costs of civilian employees of DoD by about $72 million and of other federal employees by $8 million.

Other Provisions. Various other provisions of H.R. 1960 would increase the cost of discretionary programs over the 2014–2018 period, CBO estimates.

Multiyear Procurement Contracts. The bill would authorize the military departments to enter multiyear procurement contracts for four major acquisition programs. Multiyear procurement is a special contracting method authorized in current law (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 all years are not appropriated at the time the contracts are awarded. Additional legislative authorization is required for multiyear contracts costing more than $500 million.

Multiyear procurement contracts are used to acquire multiple assets—such as ships, planes, and other weapons—under one agreement. 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. Budget authority is provided in advance only for the cost of the items that will be ordered in the upcoming budget year. 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 contracts. If such contracts are cancelled before completion, an agency usually has useable assets, albeit fewer than were envisioned under the contract.

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 contracts be cancelled at the end of the first year, DoD could owe the contractors for unrecovered fixed costs, but the department does not request budget authority for that amount. The amount of cancellation liability declines in subsequent years, as increasing portions of the fixed costs are 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 today and possibly requiring a future Congress to pay for those decisions.

- Section 131 would authorize the Air Force to enter a multiyear contract beginning in fiscal year 2014 to purchase several variants of the C–130J aircraft for the Air Force and the Marine Corps. The C–130 is a medium-sized transport aircraft that performs a broad variety of airlift and support missions. CBO estimates that under such a contract, the Air Force would buy 72 aircraft for its active and reserve component squadrons and seven aircraft for the Marines over the 2014–2018 period at a cost of $5.8 billion. The services estimate that a single multiyear contract would cost about $600 million less than five annual contracts.
- Section 121 would authorize the Navy to pursue a multiyear contract beginning in fiscal year 2014 to purchase E–2D Advanced Hawkeye aircraft. The E–2D is an airborne command, control and surveillance aircraft. CBO estimates that the Navy would buy 32 aircraft over the 2014–2018 period at a cost of $4.6 billion. The service estimates that a single multiyear contract would cost about $520 million less than five annual contracts.
- Section 141 would authorize the Missile Defense Agency (MDA) to enter into one or more multiyear contracts for the procurement of ground-based interceptors. In addition, the provision would allow MDA to enter into contracts for advance procurement associated with those interceptors. The bill would authorize $107 million in advance procurement authority in 2014 to purchase long-lead items associated with the interceptors. CBO estimates that the MDA would use the multiyear contract authority to purchase 14 additional interceptors for the Fort Greely site and 20 interceptors for the East Coast Missile site. CBO estimates that those 34 interceptors would require additional appropriations of nearly $1.9 billion over the 2014–2018 period. An additional $500 million would be required beyond 2018 to complete the purchase of the 34 interceptors. CBO estimates that purchasing those interceptors under multiple annual contracts would cost about $300 million more than a multiyear procurement contract.
- Section 142 would authorize the Department of Defense to enter one or more multiyear contracts over the 2014–2018 period for a variety of medium and heavy tactical vehicles. The services have no plans for such a multiyear contract, but requested $240 million to purchase 1,057 such vehicles in 2014. CBO has no basis on which to estimate the cost of a multiyear contract for those and additional vehicles in subsequent years.

East Coast Missile Defense Site. Section 232 would require that the Secretary of Defense ensure that a missile defense site on the East Coast of the United States is constructed and operational by 2018. Based on information from the Missile Defense Agency, CBO estimates that preparing and operating the site would require appropriations of $2.3 billion over the 2014–2018 period. That $2.3 billion amount includes the costs for buying ground equipment ($1.2 billion), building the facilities and constructing the silos (nearly $900 million), and operations ($200 million).

CBO estimates that DoD would purchase 20 ground-based interceptors to deploy to the new East Coast site. The costs of those interceptors are included above under the discussion of the multiyear contract authority provided under section 141.

Increased Cost Cap for the CVN–78 Aircraft Carrier. Section 122 of the bill would increase, to $12.9 billion, the cost cap for acquiring the CVN–78 aircraft carrier, the lead ship of the Ford class of nuclear aircraft carriers. That amount is currently capped at nearly $11.8 billion. Public Law 109–364 established a cost cap of $10.5 billion that was later revised to $11.8 billion in 2010 under the authority of the Secretary of the Navy to make adjustments to the cap for costs incurred primarily because of inflation through fiscal year 2010. Under that same authority, the cap can be further increased to $12 billion to reflect inflation since 2010. The Congress has appropriated more than $11.5 billion for the CVN–78 through 2013. CBO expects that DoD will use its current-law authority to increase the cost cap to $12 billion; thus, we estimate that raising that cap to $12.9 billion would increase the need for appropriations for constructing the CVN–78 by $0.9 billion over the 2014–2015 period.

Repair of Vessels in Foreign Shipyards. Section 1023 would require all vessels that are part of the Military Sealift Command (MSC) to be treated as though they are assigned to home ports in the United States or Guam. MSC vessels are often stationed overseas for two or more consecutive years. During such deployments, the Navy considers those ships to be forwarded deployed (that is, to not have a home port), allowing maintenance and repair work on those ships to be performed in foreign shipyards. Because they do not have to transit back to the United States during their deployments, those ships have lower fuel costs and are able to spend more time on station. In contrast, ships that are homeported in the United States are required to have all maintenance and repair work performed domestically, except in emergencies.

Implementing this provision would require all MSC vessels that are stationed overseas to transit back to the United States or Guam for routine repairs. The Navy reports that about 35 ships would be affected by this provision. Based on information from the Navy, trips back to the United States for repairs would increase fuel costs by $35 million to $40 million annually, and reduce the time each vessel can spend on station. The Navy estimates that the cost for repairs and maintenance performed domestically would, on average, be higher that the costs charged overseas. However, CBO does not currently have the information needed to estimate that increased cost.

Incrementally Funded Construction Projects. Division B would authorize DoD to begin two construction projects while authorizing appropriations for a portion of the cost in advance. The bill would authorize $373 million for those projects in 2014; an additional $195 million in authorizations and appropriations would be required in subsequent years to complete those projects. Additionally, the bill would authorize the appropriation of $1,261 million for subsequent increments of 10 projects that were authorized in prior years.

Mental Health Assessments. Two sections would increase the number of mental health assessments administered to military personnel. CBO estimates that the combined cost of those additional assessments would be $210 million over the 2014–2018 period.

Section 701 would require DoD to administer a mental health assessment to deployed personnel once every six months. Based on current deployment levels, CBO estimates DoD would need to deploy an additional 20 mental health professionals to conduct those assessments. Based on information from DoD, CBO estimates the cost to deploy each of those additional personnel would be about $150,000 per year. In addition, there would be a cost to DoD to replace those personnel in the continental U.S. (CONUS), so that current mental health caseload demands can be met. CBO estimates DoD would need to pay for an additional 25,000 hours per year of mental health services in CONUS to compensate for the loss of the deployed mental health professionals, at a cost of over $100 per hour. In total, CBO estimates section 701 would cost about $5 million per year, or about $25 million over the 2014–2018 period.

Section 702 would require DoD to administer a person-to-person mental health assessment to all active duty members on a periodic basis. Based on discussions with DoD, CBO believes the department would administer the assessments during a service member's annual health assessment. While certain aspects of mental health are already addressed during the periodic health assessment, it is not clear whether the current approach is sufficient to meet the requirements of section 702. For this estimate, CBO assumes health professionals would need to add an additional 15 minutes per assessment to fully meet the requirements. The total number of personnel requiring mental health assessments each year would be about 1.3 million (excluding deployed personnel and those already receiving pre- and post- deployment mental health assessments). At an additional cost of about $25 per assessment (the billing rates for health professionals are about $100 per hour), CBO estimates section 702 would cost $185 million over the 2014–2018 period.

Sikes Act. Section 313 would extend by five years—from 2015 to 2019—authorizations of up to $4.5 million annually for activities related to the Sikes Act, which promotes cooperation between the Department of Interior (DOI) and DoD in planning and developing fish and wildlife resources on military land. Under current law, the authorizations for those activities will expire in 2014. CBO estimates that through 2018, authorizations in H.R. 1960 for the DOI and DoD would total $12 million and $6 million, respectively.

Direct Spending and Revenues

Several provisions in H.R. 1960 would affect direct spending. CBO estimates that those provisions would decrease net direct spending by $2 million over the 2014–2023 period (see Table 4).

Retired Pay Inversion. In 1975, a law was enacted that required DoD to recalculate the annuities of military retirees to take into account any additional cost-of-living adjustments (COLA) that would have occurred had members retired at earlier dates, if they were eligible to do so; this provision is referred to as the Tower Amendment. In instances where an earlier retirement would have resulted in a larger annuity, DoD was directed to recalculate using that earlier date.[2]

Subsequently, a new method of computing retired pay was enacted into law. The new method (known as "High-36 Average") applies to all personnel who entered the service after 1980. DoD believed that the Tower Amendment did not apply to that new provision of law. However, a recent audit concluded that the Tower Amendment does apply to those who retire using the High-36 Average method of computation and that a number of those retirees stand to benefit from its application. DoD believes they are now required to make retroactive retirement payments back to the year 2000 (the year in which retirees started receiving annuities under the High-36 plan), and that they will also have to recalculate payments to future retirees to determine if those payments should be increased. Section 622 would prevent most of those higher payments from taking place, by specifying that the Tower Amendment applies to High-36 retirees only in very limited circumstances.

Based on an analysis of DoD retirement statistics and COLAs published by the Defense Finance and Accounting Service (DFAS), CBO estimates that about 370,000 former members have retired using the High-36 Average method of computation since 2000, and that, under current law, about 15 percent of those will benefit from application of the Tower Amendment. Of those who will benefit, CBO estimates the average retroactive payment should be about $1,000 per person, or almost $60 million in total. Section 622 would prevent those retroactive payments from being made.

[2] For military personnel who entered service prior to 1981, retirement pay is based on their final annual pay at the time they retired. In certain instances, it would have been more advantageous, from a financial perspective, if the member had retired at an earlier date. For example, assume the member retired in the month of October after exactly 20 years of service. If the member's initial annuity was $1,000 per month and his first COLA was 3 percent, his retired pay the following January would have been $1,030. However, if the member waited until that January to initially retire and in the intervening three months received a pay raise of 1.5 percent, the member's initial retired pay in January (including the impact of the additional three months of service) would have only been $1,028. The member would have been better off retiring the previous October.

TABLE 4—ESTIMATED IMPACT OF H.R. 1960 ON DIRECT SPENDING

	By fiscal year, in millions of dollars—											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014–2018	2014–2023
Retired Pay Inversion												
Estimated Budget Authority	−38	−49	−12	−13	−14	−15	−16	−17	−18	−20	−126	−212
Estimated Outlays	−38	−49	−12	−13	−14	−15	−16	−17	−18	−20	−126	−212
Special Immigrant Visas for Iraqi and Afghan Allies												
Estimated Budget Authority	2	5	10	10	15	15	15	15	15	15	42	117
Estimated Outlays	2	5	10	10	15	15	15	15	15	15	42	117
TRICARE Prime Service Areas												
Estimated Budget Authority	4	4	4	3	3	3	3	3	3	3	18	33
Estimated Outlays	4	4	4	3	3	3	3	3	3	3	18	33
Servicemember Qualification for Mortgage Refinancing												
Estimated Budget Authority	4	3	2	1	1	1	1	2	2	2	11	19
Estimated Outlays	4	3	2	1	1	1	1	2	2	2	11	19
National Defense Stockpile												
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	2	10	10	10	5	4	0	0	0	0	37	41
Total Changes in Direct Spending												
Estimated Budget Authority	−28	−37	4	1	5	4	3	3	2	0	−55	−43
Estimated Outlays	−26	−27	14	11	10	8	3	3	2	0	−18	−2

Note: H.R. 1960 also would affect revenues. However, CBO estimates that effect would be insignificant.

In addition, CBO estimates section 622 would reduce future payments by more than $10 million annually over the next 10 years. That amount includes both the added payments to current retirees (which would average about $200 a year each), as well as increased payments for those who will retire during that period and stand to benefit from application of the Tower Amendment. In total, CBO estimates that enacting section 622 would reduce spending from the Military Retirement Fund by $212 million over the 2014–2023 period.

Special Immigrant Visas for Iraqi and Afghan Allies. Section 1216 would amend the Afghan Allies Protection Act of 2009 (8 U.S.C. 1101 note) to extend by four years (through the end of fiscal year 2018) the period during which special immigrant visas can be provided to certain Afghans. Eligible immigrants under that provision are Afghans who were employed by the United States Government at some point since 2001 and are experiencing an ongoing serious threat as a consequence.

The provision also would make available to those individuals 435 additional visas in each year from 2014 to 2018; their spouses and children would not count against that number. Because those special immigrants (including their spouses and children) are eligible for public benefits to the same extent as refugees, they could receive subsidies through health insurance exchanges, Medicaid benefits, nutrition benefits, and Supplemental Security Income, if otherwise eligible, upon arrival in the United States. CBO estimates that direct spending for those benefits would increase by $117 million over the 2014–2023 period.

TRICARE Prime Service Areas. At the beginning of fiscal year 2014, several TRICARE Prime Service areas are scheduled to be eliminated. Section 711 would require DoD to continue to make the TRICARE Prime benefit available to beneficiaries currently residing in those areas. Most of the 170,000 affected beneficiaries are retirees of the Army, Navy, Air Force, and Marine Corps, and their dependents. Health benefits for those personnel are paid by the Defense Health Program, which is subject to annual appropriations. However, about 2.5 percent of the population are retirees and dependents of retirees of the Coast Guard, National Oceanic and Atmospheric Administration, and the Uniformed Corps of the Public Health Service. Health benefits for those beneficiaries are paid from mandatory appropriations. Based on information from DoD, CBO estimates section 711 would increase direct spending for those beneficiaries by $33 million over the 2014–2023 period.

For a more complete overview of section 711, as well as additional details about CBO's estimating methodology, see the related discussion in the "Spending Subject to Appropriation" section of this estimate.

Servicemember Qualification for Mortgage Refinancing. Section 553 would make it easier for certain servicemembers to refinance mortgages on homes that they do not occupy. Under current law, borrowers must occupy a home to be eligible for a guarantee from the Department of Veterans Affairs (VA) on cash-out refinancing loans. Further, private-sector lenders generally charge higher interest rates for loans on homes that are not occupied by the borrower, which discourages some of those borrowers from refinancing. Section 533 would require servicemembers to be treated as if they occupied the home when they refinance, if they left the home because of change-of-station or deployment orders. As a result, some additional borrowers would qualify for cash-out refinancing loans that are guaranteed by VA. Others would choose to refinance loans that they would otherwise not have because they would receive lower interest rates; some of those loans also would be guaranteed by VA.

VA guarantees lenders a payment of up to 25 percent of the outstanding loan balance (subject to some limitations on the original loan amount) in the event that the veteran defaults. Such guarantees enable veterans to get better loan terms such as lower interest rates or smaller down payments. The subsidy costs of VA loan guarantees are paid from mandatory appropriations.[3] Guaranteeing additional loans would increase subsidy outlays. Based on the annual number of loan guarantees that VA currently provides for servicemembers, CBO expects that over the next 10 years, VA would guarantee an additional 10,000 loans under this provision. Those guarantees would increase direct spending by $19 million over the 2014–2023 period, CBO estimates.

National Defense Stockpile. Section 1411 would modify the purchasing authority for the National Defense Stockpile by authorizing the recovery of strategic and critical materials embedded in excess components owned by the U.S. military or other federal agencies before those components are sold for scrap.

Section 1412 would allow the Stockpile Manager to spend up to $41 million from the National Defense Stockpile Transaction Fund to purchase six new materials over the 2014–2019 period. All of those materials have been identified as necessary to meet military needs. Based on information from DoD, CBO estimates that enacting sections 1411 and 1412 would increase direct spending by $41 million over the 2014–2019 period.

Other Provisions. Other provisions in the bill would have insignificant effects on direct spending or revenues, generally because few people would be affected, or because the net budgetary impact would be small.

- Section 512 would modify rules related to the selective early retirement of reserve personnel. In certain circumstances, those changes might affect the number of former reserve members drawing retired pay in a given year.
- Section 527 would enhance protections for military whistleblowers from acts of reprisal and also would require that the service records of victims of reprisal action be corrected. CBO estimates that correcting those records would result in some individuals receiving retroactive payments, benefits, or awards that were improperly denied.
- Section 528 would allow certain requirements for medical examinations to apply to proceedings conducted under the Uniform Code of Military Justice. CBO estimates that under that provision some servicemembers would receive a higher characterization of

[3] Under the Federal Credit Reform Act of 1990, the subsidy cost of a loan guarantee is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, and other expenses, offset by any payments to the government, including origination fees, other fees, penalties, and recoveries on defaulted loans. Such subsidy costs are calculated by discounting those expected cash flows using the rate on Treasury securities of comparable maturity. The resulting estimated subsidy costs are recorded in the budget when the loans are disbursed.

discharge and, therefore, become eligible for certain benefits administered by VA.

- Section 585 would award the Purple Heart to servicemembers who were killed or wounded in the attacks at a recruiting station in Little Rock, Arkansas, on June 1, 2009, and at Fort Hood, Texas, on November 5, 2009. Receipt of the Purple Heart is directly tied to eligibility for Combat-Related Special Compensation (CRSC), which is a mandatory benefit. CBO estimates that some of those servicemembers who would receive the Purple Heart under this provision would as a result earn CRSC. In addition, members of the Armed Forces or civilian employees of DoD who were killed or wounded in those attacks would be deemed to have been killed or wounded in a combat zone or while serving with the Armed Forces in a contingency operation. Awarding that status would provide eligibility for certain benefits that would increase direct spending and decrease revenues.
- Section 592 would allow the Army to enter into contracts with private entities to provide certain services at Arlington National Cemetery, such as transportation. Some of those contracts could include third-party financing of capital assets that, in CBO's judgment, should be recorded up front in the federal budget.
- Section 594 would establish a Commission on Service to the Nation and allow the Commission to collect and spend gifts, bequests, and devises of services or property.
- Section 714 would create a pilot program to improve the collection of third-party reimbursements at military treatment facilities. In certain circumstances, expenses associated with third-party collection activities are recorded as direct spending.
- Section 1061 would allow the Secretary of Defense to accept and spend contributions for the operation of the Conflict Records Research Center.
- Sections 1084 and 3502 would allow the federal government to insure without premium, private entities that transport U.S. cargo and personnel in the event that the private planes and vessels used are damaged in an act of war. CBO estimates that the probability of paying claims on such insurance would be negligible.
- Section 1303 would extend by three years the authority that allows DoD to spend contributions received from the private sector and foreign governments for use on activities associated with the Cooperative Threat Reduction program. The current authority to accept and spend those contributions will expire on December 31, 2015. Under section 1303, any amounts not spent by December 31, 2018 would be returned to the donor.
- Section 2803 would make available for spending by DoD an insignificant amount of collections in a moribund account for military housing.

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. Enacting H.R. 1960 would have no significant effect on revenues.

CBO ESTIMATE OF PAY-AS-YOU-GO EFFECTS FOR H.R. 1960 AS REPORTED BY THE HOUSE COMMITTEE ON ARMED SERVICES ON JUNE 7, 2013

	By fiscal year, in millions of dollars—											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2013–2018	2013–2023
NET INCREASE OR DECREASE (−) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	−26	−27	14	11	10	8	3	3	2	0	−18	−2

Intergovernmental and private-sector impact: The bill would impose intergovernmental and private-sector mandates as defined in UMRA on mortgage lending institutions. The bill would require mortgage lenders to consider active-duty servicemembers who have been relocated for certain reasons to be considered the occupants of the residences that secure mortgages for the purpose of refinancing. Because of the small number of loans that would be affected, CBO estimates that the costs of complying with the mandate would be small and well below the annual threshold established in UMRA for intergovernmental mandates ($75 million in 2013, adjusted annually for inflation). Based on information about current industry practices, CBO estimates that the costs to private lending institutions of complying with the mandate would probably fall below the annual threshold established in UMRA for private-sector mandates ($150 million in 2013, adjusted annually for inflation).

Section 552 would preempt state laws governing child custody if those laws are inconsistent with or provide less protection to the rights of a parent who is a servicemember than those provided under the bill. That preemption would be an intergovernmental mandate as defined in UMRA. While the mandate would limit the application of state laws, it would impose no duty on states that would result in additional spending.

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