CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 29, 2012

S. 3254
National Defense Authorization Act for Fiscal Year 2013

As reported by the Senate Committee on Armed Services on June 4, 2012

SUMMARY

S. 3254 would authorize an estimated $634 billion in appropriations for fiscal year 2013 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 an estimated $89 billion for the cost of overseas contingency operations, primarily in Afghanistan. In addition, S. 3254 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 $622 billion over the 2013-2017 period.

The bill also contains provisions that would increase or decrease costs of discretionary defense programs in 2014 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 we estimate they would raise net costs by about $42 billion over the 2014-2017 period, assuming appropriation of the necessary amounts for those years. Those amounts are not included in the totals in the previous paragraph because funding for those activities would be covered by specific authorizations in future years.

S. 3254 contains provisions that would decrease direct spending by $31 million over the 2013-2017 period and $75 million over the 2013-2022 period. Because enacting the legislation would affect direct spending, pay-as-you-go procedures apply. Enacting the bill would not affect revenues.

S. 3254 would impose an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA) by preempting some state lending laws and would impose a private-sector mandate by requiring creditors to extend consumer credit protections to a previously uncovered group. CBO estimates that the costs of both mandates would fall well below the intergovernmental and private-sector thresholds

established in UMRA ($73 million and $146 million in 2012, respectively, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 3254 is summarized in Table 1. Almost all of the $634 billion that would be authorized by the bill for 2013 is for activities within budget function 050 (national defense). A small portion—$68 million for the Armed Forces Retirement Home—falls in budget function 600 (income security).

The provisions that would affect direct spending are for activities within budget functions 600 and 550 (health).

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 3254 will be enacted near the start of fiscal year 2013 and that the specified and estimated amounts will be appropriated.

Spending Subject to Appropriation

The bill would authorize appropriations for 2013 totaling an estimated $634 billion, of which $545 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 ($543 billion) would be specifically authorized as follows: $526 billion for DoD and $17 billion for atomic energy defense activities within DOE (see Table 2). In addition to those specified amounts, CBO estimates that the bill would authorize $1.3 billion for certain accrual payments that are part of DoD’s budget—and required under current law—but not fully reflected in amounts specifically authorized by the bill.

Those combined amounts for DoD base budget costs ($527 billion) that would be authorized by S. 3254 represent a net decrease of $3 billion (0.6 percent) relative to appropriations enacted for 2012. Authorized funding would decline for most major categories of spending: Military personnel would fall by $5 billion (4 percent); procurement by $6 billion (6 percent); military construction, family housing, and revolving funds by $3 billion (19 percent); and research and development by $2 billion (3 percent). Those decreases, however, would be largely offset by a $14 billion (7 percent) increase in authorizations for operation and maintenance.

TABLE 1. BUDGETARY IMPACT OF S. 3254, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2013

	By Fiscal Year, in Millions of Dollars					
	2013	2014	2015	2016	2017	2013-2017
SPENDING SUBJECT TO APPROPRIATION						
Specified Authorization of Regular Appropriations for 2013, Primarily for the Departments of Defense and Energy						
Authorization Level	543,255	0	0	0	0	543,255
Estimated Outlays	347,819	118,667	41,929	17,050	7,353	532,818
Estimated Authorization of Regular Appropriations for 2013 and 2014[a]						
Estimated Authorization Level	1,344	8	0	0	0	1,352
Estimated Outlays	1,344	8	0	0	0	1,352
Specified Authorization of Appropriations for Overseas Contingency Operations (OCO)						
Authorization Level	88,182	0	0	0	0	88,182
Estimated Outlays	48,255	27,387	8,368	2,442	650	87,102
Estimated Authorization of Appropriations for the Pakistan Counterinsurgency Fund [b]						
Estimated Authorization Level	800	0	0	0	0	800
Estimated Outlays	120	240	240	120	80	800
Total						
Estimated Authorization Level	633,580	8	0	0	0	633,588
Estimated Outlays	397,538	146,302	50,537	19,612	8,083	622,072
CHANGES IN DIRECT SPENDING [c]						
Estimated Budget Authority	-4	-5	-7	-7	-8	-31
Estimated Outlays	-4	-5	-7	-7	-8	-31

Notes: Except as noted below, the authorization levels in this table reflect amounts that would be specifically authorized by the bill. The bill also implicitly authorizes some activities in 2014 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. For 2013, 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. For 2014, this authorization reflects the estimated cost of 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.

b. This authorization reflects the estimated cost of section 1215, which would extend—for one year through 2013—the authority for DoD to provide equipment, supplies, and funding for training the security forces of Pakistan. CBO assumes this is an authorization of funding for overseas contingency operations.

c. In addition to the changes in direct spending shown above, S. 3254 would have effects beyond 2017. CBO estimates that over the 2013-2022 period, S. 3254 would decrease direct spending by $75 million (see Table 4).

TABLE 2. SPECIFIED AUTHORIZATIONS IN S. 3254

	By Fiscal Year, in Millions of Dollars					
	2013	2014	2015	2016	2017	2013-2017
Authorization of Regular Appropriations						
Department of Defense						
Military Personnel [a]						
Authorization Level	135,118	0	0	0	0	135,118
Estimated Outlays	127,695	6,695	169	37	0	134,596
Operation and Maintenance						
Authorization Level [b]	210,491	0	0	0	0	210,491
Estimated Outlays	149,723	45,240	9,269	2,300	763	207,295
Procurement						
Authorization Level [c]	98,261	0	0	0	0	98,261
Estimated Outlays	21,259	33,012	23,046	11,450	4,734	93,501
Research and Development						
Authorization Level [c]	69,286	0	0	0	0	69,286
Estimated Outlays	34,192	25,101	5,192	2,017	1,332	67,924
Military Construction and Family Housing						
Authorization Level	10,559	0	0	0	0	10,559
Estimated Outlays	1,569	3,467	3,200	1,187	540	9,963
Revolving Funds						
Authorization Level	2,124	0	0	0	0	2,124
Estimated Outlays	1,749	311	36	19	9	2,124
General Transfer Authority						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	250	-100	-75	-50	-25	0
Subtotal, Department of Defense						
Authorization Level	525,839	0	0	0	0	525,839
Estimated Outlays	336,437	113,726	40,837	17,050	7,353	515,403
Atomic Energy Defense Activities						
Authorization Level [d]	17,348	0	0	0	0	17,348
Estimated Outlays	11,325	4,931	1,092	0	0	17,348
Armed Forces Retirement Home						
Authorization Level	68	0	0	0	0	68
Estimated Outlays	57	10	0	0	0	67
Subtotal, Authorization of Regular Appropriations						
Authorization Level	543,255	0	0	0	0	543,255
Estimated Outlays	347,819	118,667	41,929	17,050	7,353	532,818

(Continued)

TABLE 2. Continued

	By Fiscal Year, in Millions of Dollars					
	2013	2014	2015	2016	2017	2013-2017
Authorization of Appropriations for Overseas Contingency Operations						
Military Personnel						
Authorization Level[a]	14,060	0	0	0	0	14,060
Estimated Outlays	13,169	846	7	0	0	14,022
Operation and Maintenance						
Authorization Level	63,696	0	0	0	0	63,696
Estimated Outlays	32,375	22,376	6,003	1,725	391	62,870
Procurement						
Authorization Level	9,677	0	0	0	0	9,677
Estimated Outlays	2,304	3,948	2,259	693	261	9,465
Research and Development						
Authorization Level	246	0	0	0	0	246
Estimated Outlays	118	93	19	7	5	242
Working Capital Funds						
Authorization Level	503	0	0	0	0	503
Estimated Outlays	189	164	110	37	3	503
Special Transfer Authority						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	100	-40	-30	-20	-10	0
Subtotal, Overseas Contingency Operations						
Authorization Level	88,182	0	0	0	0	88,182
Estimated Outlays	48,255	27,387	8,368	2,442	650	87,102
Total Specified Authorizations						
Authorization Level	631,436	0	0	0	0	631,436
Estimated Outlays	396,074	146,054	50,297	19,492	8,003	619,920

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 2014 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) implicitly include $6,682 million and $271 million, respectively, for accrual payments to the Medicare-Eligible Retiree Health Care Fund. CBO estimates, however, that section 421 understates—by $1,344 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).

(Continued)

TABLE 2. Continued

b. Section 1709 of the bill would authorize an additional $1.4 billion for costs associated with maintaining certain components of the force structure of the Air Force, pending recommendations of a commission that would be created to study current and future requirements. The bill, however, would not allocate that authorization among the major categories of DoD spending; for purposes of this table, CBO has reflected section 1709 as an authorization for operation and maintenance activities.

c. The amounts for procurement and for research and development are net figures that have been reduced by $1,114 million and $87 million, respectively, to reflect the potential effects of sections 128, 129, 145, 213, and 215, which would authorize, subject to appropriation action, the transfer of unobligated balances from 2012 and prior-year appropriations that could be used for 2013 programs that would be authorized by the bill.

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

For DOE, the $17 billion that would be authorized for 2013 represents a $0.5 billion (3 percent) increase over the level appropriated for 2012.

Of the funds that would be authorized for 2013 overseas contingency operations—primarily for military operations in Afghanistan—$88 billion would be specifically authorized by the bill. In addition, CBO estimates that another $0.8 billion would be authorized for costs related to the security forces of Pakistan. Those combined amounts represent a decrease of $26 billion (23 percent) compared to the $115 billion appropriated for 2012. Authorized funding for operation and maintenance would decrease by $23 billion (26 percent), while funding envisioned for procurement would decline by $6 billion (40 percent). Increased authorizations for military personnel of $3 billion (25 percent) and for other categories of spending would partially offset those declines.

S. 3254 also contains provisions that would increase or decrease the cost of various discretionary programs in future years. Most of those provisions would affect end strength, military compensation and benefits, and acquisition programs using multiyear procurement authorities. The estimated costs 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 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 2013.

Under title IV, the authorized end strengths in 2013 for active-duty personnel and personnel in the selected reserves would total 1,401,697 and 844,163, respectively. Of those selected reservists, 78,471 would serve on active duty in support of the reserves. In total, active-duty end strength would decrease by 20,903 and selected-reserve end strength would decrease by 2,937 when compared with levels authorized under current law for 2013.

Active-Duty End Strengths. Compared with end-strength levels authorized under current law for 2013, section 401 would authorize reductions in active-duty personnel across all four services: 9,900 fewer for the Army; 3,000 fewer for the Navy; 4,800 fewer for the Marine Corps; and 3,203 fewer for the Air Force. CBO estimates that the total reduction in active-duty personnel of 20,903 servicemembers would decrease costs to DoD by $12.6 billion over the 2013-2017 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, the Navy Reserve and the Air National Guard would experience decreases in end strength of 3,700 and 265, respectively, while the Air Force Reserve would increase by 1,028. The other reserve components would see no change to the levels already authorized for 2013. Those numbers include a net increase in the number of full-time reservists who serve on active duty in support of the reserves of 57 compared with the authorized end-strength levels for 2013. CBO estimates that the net result of implementing those provisions would be a decrease in costs for salaries and expenses for selected reservists of $445 million over the 2013-2017 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 raise the required number of technicians by 963 relative to the levels currently authorized. CBO estimates that such an expansion would increase costs for civilian salaries and expenses by $369 million over the 2013-2017 period.

Coast Guard Reserve End Strengths. The bill also would authorize an end-strength level of 9,000 servicemembers in 2013 for the Coast Guard Reserve, 1,000 fewer than authorized under current law. Because this authorization level remains above the actual number of Coast Guard Reservists, which has stayed below 8,000 since 2007, CBO does not estimate any change in costs would result from this provision.

Compensation and Benefits. S. 3254 contains several provisions that would affect compensation and benefits for uniformed and civilian personnel. The bill would specifically authorize regular appropriations of $135 billion for the costs of military pay and allowances in 2013. For related costs resulting from overseas contingency operations (primarily in Afghanistan), the bill would authorize the appropriation of an additional $14 billion for 2013.

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN S. 3254

	By Fiscal Year, in Millions of Dollars					
	2013	2014	2015	2016	2017	2013-2017
FORCE STRUCTURE						
Active-Duty End Strengths	-1,664	-2,443	-2,715	-2,854	-2,926	-12,602
Selected-Reserve End Strengths	-54	-82	-94	-106	-109	-445
Reserve Technicians End Strengths	38	79	82	84	86	369
COMPENSATION AND BENEFITS						
Expiring Bonuses and Allowances	1,117	658	374	373	184	2,706
Early Discharge Authority	0	36	39	38	14	127
TRICARE						
Coverage of Infertility Treatment	15	30	30	35	35	145
Include Over-the-Counter Drugs in TRICARE Formulary	-4	-4	-5	-5	-6	-24
Civilian Benefits in a Combat Zone						
Department of Defense	0	71	0	0	0	71
Other Federal Entities	0	8	0	0	0	8
Other Compensation and Benefits Provisions	6	10	8	8	8	40
OTHER PROVISIONS						
Multiyear Procurement Contracts						
Virginia-class Submarines	875	4,607	6,282	5,727	4,312	21,803
Arleigh Burke Destroyers	4,069	2,200	3,730	4,616	5,318	19,933
V-22 Tiltrotor Aircraft	1,779	1,828	1,619	1,546	1,504	8,276
CH-47 Helicopters	717	622	647	857	465	3,308
Incrementally Funded Procurement Contracts						
USS Abraham Lincoln Refueling and Overhaul	1,613	1,748	0	0	0	3,361
Space-Based Infrared System Satellites	368	379	368	350	391	1,856
Chemistry and Metallurgy Research Building	150	400	400	400	500	1,850
Pakistan Counterinsurgency Fund	800	0	0	0	0	800
NATO Special Forces Headquarters	50	50	50	50	50	250

(Continued)

TABLE 3. Continued

Notes: Amounts shown in this table for 2013 reflect costs of defense programs and—with one exception—are included in amounts that would be specifically authorized to be appropriated by the bill (as reflected in Table 2 and summarized in Table 1). The exception is the estimated cost in 2013 for the Pakistan Counterinsurgency Fund, which would not be specifically authorized by the bill (and thus is not reflected in the amounts shown in Table 2). That cost is, however, reflected in Table 1 because it is in addition to costs that would be covered by specified authorizations.

Amounts shown in this table for 2014 through 2017 are not included in amounts that would be specifically authorized by the bill and—with one exception—would be covered by specific authorizations for defense programs in future years (and therefore are not reflected in Tables 1 and 2). The exception is the estimated $8 million cost that would be incurred by federal departments and agencies other than DoD in 2014. That cost, which would result from providing certain benefits to civilians who work in a combat zone, is reflected in Table 1 because it would not be covered by specified authorizations for defense programs planned for 2014.

The authorization of appropriations in Title 35 of the bill for the Maritime Administration is not reflected in this estimate because that authorization is in existing statute.

NATO = North Atlantic Treaty Organization.

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

Expiring Bonuses and Allowances. Sections 611 through 615 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, 2012. 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 2013, CBO estimates that extending that authority for one year would cost $2.7 billion over the 2013-2017 period.

Early Discharge Authority. Section 501 would extend the authority for the Secretary of Defense to convene early discharge boards through December 31, 2018—six years beyond the current expiration date of December 31, 2012. Based on information from DoD, CBO expects about 2,400 officers, primarily in the grades of O-3 and O-4, would receive involuntary separation payments over the 2014-2017 period, as a result of extending that authority. The average payment amount would be about $50,000 per person over that four-year period, but individual payments would vary depending on rank and years of service. CBO estimates that there would be no costs in 2013 because it would take time to assemble new early discharge boards and for the decisions of those boards to be implemented. Thus, CBO estimates that implementing section 501 would cost $127 million over the 2014-2017 period.

TRICARE Coverage of Infertility Treatment. Section 712 would require TRICARE to provide fertility assistance services to active-duty members who, as a result of medical treatment for illnesses, have difficulty conceiving children. CBO's cost estimate for this section comprises two components: the cost of providing the services and the cost to

TRICARE for providing the additional child delivery services from the resulting pregnancies.

To estimate the number of active-duty members who might make use of this new benefit, CBO examined the incidence of assisted reproductive technology (ART) services as reported by the Centers for Disease Control (CDC). Based on those data, and making adjustments for the age of the active-duty population, and for the fact that their infertility must be caused by a medical treatment to qualify, CBO estimates that about 1,200 active-duty members would utilize this benefit each year. CBO estimates that the cost of those services would be about $15,000 per user, or about $20 million per year; that estimate is based on publicly available pricing information from several fertility clinics, and includes the cost of in vitro fertilization, one of the more popular and accepted procedures.

In addition to the cost of the fertility assistance procedures, CBO also estimates that TRICARE would incur additional costs for the increased number of resulting pregnancies. Based on information from the CDC, CBO estimates that about a third of ART services result in a pregnancy. However, because some military members are currently seeking ART services on their own and TRICARE is already paying for those pregnancies under current law, CBO estimates the number of additional pregnancies created by this provision would be less, about 200 per year. Furthermore, CBO estimates the cost of each pregnancy would be about $50,000, based on information from private-sector studies and DoD cost data, for a cost of about $10 million per year. This amount is significantly higher than the average cost of a pregnancy in the United States because it takes into account the higher percentage of multiple births and preterm deliveries associated with fertility assistance procedures.

In total, CBO estimates that implementing section 712 would increase costs to TRICARE by $145 million over the 2013-2017 period. Costs would be lower in the first year because of the time needed to establish rules and regulations.

Include Over-the-Counter Drugs in TRICARE Formulary. Section 702 would allow DoD to provide certain over-the-counter (OTC) medications to beneficiaries at little or no charge. Similar authority was provided to DoD as part of a temporary demonstration program under section 705 of the National Defense Authorization Act for Fiscal Year 2007 (Public Law 109-364). That authority will expire in November 2012.

Certain medications have both OTC and more-expensive prescription versions that achieve similar therapeutic results. Under the demonstration program, DoD has subsidized OTC drugs for beneficiaries in place of prescribed versions of those drugs that are more costly. Based on information from DoD, CBO estimates this authority has reduced spending for drugs by about $8 million per year. About half of those savings accrue to the Defense Health Program, a discretionary account that includes pharmacy spending for active-duty members, working age military retirees, and their dependents.

Therefore, CBO estimates that extending this authority indefinitely would initially decrease spending subject to appropriations by $4 million per year and the savings would increase in later years because of inflation. The other half of the savings would accrue to the Medicare-Eligible Retiree Health Care Fund, a mandatory account, and is discussed in the "Direct Spending" section of this estimate.

Civilian Benefits in a Combat Zone. Section 1103 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, 2013, include death gratuities, paid leave and travel for one trip home, and up to three leave periods per year for rest and recuperation, depending on the length of deployment. Based on information from DoD and the Office of Personnel Management, CBO estimates that about 5,600 federal civilian employees (from DoD and other federal agencies) will work in a designated combat zone in 2014 and, under this provision, would receive an average benefit that would cost roughly $14,000 a year. Thus, CBO estimates that section 1103 would increase costs to the federal government by about $79 million in 2014.

Other Compensation and Benefits Provisions. CBO estimates that certain other provisions in titles V and VI—sections 554 and 601—would increase DoD military compensation costs by $40 million over the 2013-2017 period. Section 554 would authorize pay-grade promotions for certain officers while they are attending medical school. Section 601 would protect certain members of the National Guard from a reduction in the basic allowance for housing when they transition between active-duty and full-time National Guard duty.

Other Provisions. Various other provisions would increase the cost of discretionary programs over the 2013-2017 period, CBO estimates.

Multiyear Procurement Contracts. S. 3254 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), 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. 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 canceled 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 canceled at the end of the first year, DoD could owe the contractors for unrecovered fixed costs; however, the department 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 cancelation 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 124 would authorize the Navy to enter a follow-on multiyear contract for Virginia-class submarines beginning in fiscal year 2014. The Navy will order the last of two submarines in 2013 under an ongoing multiyear contract that was awarded in 2009. Based on information from DoD, CBO estimates that the Navy would use this authority to purchase an additional nine submarines over the 2014-2018 period and that those nine ships would require appropriations of $21.8 billion over the 2013-2017 period. (An additional $3.8 billion would be needed to complete the purchase in 2018.) The Navy estimates that purchasing those vessels under five annual contracts would cost $4.5 billion more than a single multiyear procurement contract.

Section 125 would authorize the Navy to enter a multiyear contract for up to 10 Arleigh Burke-class destroyers beginning in fiscal year 2013. Based on information from DoD, CBO estimates that under that provision the Navy would purchase nine destroyers over the 2013-2017 period and that those nine ships would require appropriations of $19.9 billion over that period. The Navy estimates that five annual contracts would cost $1.5 billion more than a single multiyear procurement contract for those vessels.

Section 151 would authorize the Navy to enter a multiyear contract beginning in fiscal year 2013 to purchase V-22 aircraft for the Marine Corps, the Air Force, and the U.S. Special Operations Command. In 2012, the Navy will order the last of five lots of the tilt-rotor aircraft under a multiyear contract that began in 2008. Under the subsequent multiyear contract that would be authorized by this section, CBO estimates that the Navy would buy 91 aircraft for the Marines and seven aircraft for the Air Force and Special Operations Command over the 2013-2017 period at a cost of $8.3 billion. Appropriations were provided in 2012 for cost-reduction initiatives, so no cancellation costs are anticipated for the contract. The Navy estimates that a single multiyear contract would cost $852 million less than five annual contracts.

Section 111 would authorize the Army to enter a multiyear procurement contract for CH-47 helicopter airframes beginning in fiscal year 2013. Using that authority, CBO estimates that the Army would purchase 161 such aircraft over the 2013-2017 period at a cost of $3.3 billion. The Army estimates that procuring the helicopters through a series of annual contracts would require additional appropriations of $373 million.

Incrementally Funded Procurement Contracts. S. 3254 would provide incremental funding authority for two acquisition contracts. Incremental funding of contracts is similar to multiyear contracts in that it allows agencies to incur obligations for which budget authority will be provided over more than one year.

Government-wide accounting policies and DoD financial regulations generally require that appropriations for the full cost of acquisition contracts be enacted in advance. Incrementally funded contracts deviate from that policy because only a portion of the total budget authority needed to complete an acquisition is available at the time the contract is signed. Authority for such contracts typically stipulates that payments due in successive years of the contract are subject to the availability of funds provided in subsequent appropriations acts. If incrementally funded contracts are canceled before completion, an agency is usually left without a complete and usable asset.

Incremental funding does not change the budgetary impact of an acquisition program; it merely delays recognition of the full cost of the acquisition program by providing budget authority in allotments that more closely match estimated annual outlays. In general, outlays under such a contract will proceed according to the pace of production and the performance of the contractor, regardless of whether appropriations are provided up front or over time.

Section 121 would authorize the Navy to conduct a nuclear refueling and overhaul of the U.S.S. Abraham Lincoln (CVN-72) over the 2013-2014 period. CBO estimates that the refueling and overhaul would require appropriations of $1.6 billion in 2013 and $1.7 billion in 2014. Over the 2010-2012 period, the Congress appropriated $1.1 billion for advance procurement of materials and components.

Section 144 would authorize the Secretary of the Air Force to enter into a fixed-price contract using incremental funding to buy two Space-Based Infrared System satellites. Budget authority for those satellites would be provided annually over a six-year period. The Congress appropriated almost $500 million for advance procurement for those satellites over the 2011-2012 period. CBO estimates that buying those satellites would require an additional $2.9 billion in budget authority: $1.9 billion over the 2013-2017 period, and $1 billion in 2018 to complete the acquisition.

Chemistry and Metallurgy Research Building. The bill would require the Administration to develop and construct the Chemistry and Metallurgy Research Building Replacement Project in Los Alamos, New Mexico. That facility would be used to conduct plutonium research and to produce and maintain plutonium components for nuclear weapons.

The Department of Energy began developing the project in 2004. In the 2013 budget request, development was deferred for at least five years to offset cost increases in other facilities and infrastructure projects. Section 3111 would eliminate the planned five-year deferral and require DOE to have the facility operational by December 31, 2024.

In addition, section 3111 would authorize appropriations of $150 million for the project in 2013. Additional appropriations totaling $1.7 billion would be required over the 2014-2017 period to meet the deadline for completion of the facility, CBO estimates. In addition, the section would limit the total cost of the project to $3.7 billion.

Extension of Pakistan Counterinsurgency Fund. Section 1215 would extend for one year, through fiscal year 2013, DoD's authority to provide assistance—including equipment, supplies, and funding for training—to the security forces of Pakistan through the Pakistan Counterinsurgency Fund (PCF). Since 2009, DoD and the Department of State have received approximately $3 billion to provide support to the Pakistani security forces through PCF and the Pakistan Counterinsurgency Capability Fund (PCCF). For fiscal year 2013, the Administration requested an appropriation of $800 million for the PCCF to support Pakistani security forces. Based on that funding request, CBO estimates that implementing this provision would require appropriations of $800 million in fiscal year 2013.[1]

[1] For purposes of this estimate, CBO has reflected the $800 million as an authorization of funding for overseas contingency operations.

North Atlantic Treaty Organization (NATO) Special Forces Headquarters. Section 342 would authorize up to $50 million annually to support NATO's Special Operations Headquarters. Funding provided to NATO would be available to improve the coordination and cooperation between the special operations forces of NATO member countries and to facilitate combined operations by such forces. Assuming appropriation of the estimated amounts, CBO estimates that this provision would cost $250 million over the 2013-2017 period.

Direct Spending

Several provisions in S. 3254 would affect direct spending. CBO estimates that those provisions would decrease direct spending by $75 million over the 2013-2022 period (see Table 4).

TABLE 4. ESTIMATED IMPACT OF S. 3254 ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2017	2013-2022
Include Over-the-Counter Drugs in TRICARE Formulary												
Estimated Budget Authority	-4	-4	-5	-5	-6	-6	-7	-7	-8	-8	-24	-60
Estimated Outlays	-4	-4	-5	-5	-6	-6	-7	-7	-8	-8	-24	-60
Retirement of Navy Chief Warrant Officers												
Estimated Budget Authority	*	-1	-2	-2	-2	-2	-2	-2	-1	-1	-7	-15
Estimated Outlays	*	-1	-2	-2	-2	-2	-2	-2	-1	-1	-7	-15
Total Changes												
Estimated Budget Authority	-4	-5	-7	-7	-8	-8	-9	-9	-9	-9	-31	-75
Estimated Outlays	-4	-5	-7	-7	-8	-8	-9	-9	-9	-9	-31	-75

Note: * = between $0 and -$500,000.

Include Over-the-Counter Drugs in TRICARE Formulary. Section 702 would allow DoD to provide certain over-the-counter medications to beneficiaries at little or no charge. Similar authority was provided to DoD as part of a temporary demonstration program under section 705 of the National Defense Authorization Act for Fiscal Year 2007 (Public Law 109-364). That authority will expire in November 2012.

Certain medications have both OTC and more-expensive prescription versions that achieve similar therapeutic results. Under the demonstration program, DoD has subsidized OTC drugs for beneficiaries in place of prescribed versions of those drugs that are more costly. Based on information from DoD, CBO estimates this authority has reduced spending for drugs by about $8 million per year. About half of those savings accrued to the Medicare-Eligible Retiree Health Care Fund (MERHCF), a mandatory account that includes pharmacy spending for military retirees and their dependents who are Medicare eligible. After adjusting for inflation in future years, CBO estimates that extending that authority indefinitely would decrease spending from the MERHCF by $60 million over the 2013-2022 period. The other half of the savings would accrue to the account for the Defense Health Program, which is discretionary, and is discussed in the "Spending Subject to Appropriation" section of this estimate.

Retirement of Navy Chief Warrant Officers. Section 502 would allow Navy Chief Warrant Officers to remain in the service for 33 years. Currently, those officers are required to retire after completing 30 years of service. Based on data from DoD, CBO expects that under this provision about 10 Warrant Officers a year would choose to remain in the service for additional years. CBO expects that this provision would decrease spending from the Military Retirement Fund in the near term because those members would retire later than they otherwise would have under current law. However, by retiring later, those members would be accepting a larger annuity, which would increase costs to the retirement fund over the long run. On net, CBO estimates section 502 would reduce spending by the Military Retirement Fund by $15 million over the 2013-2022 period.

Other Provisions. Other provisions in the bill would have insignificant effects on direct spending, generally because few people would be affected or because the effects would net out, as when contributions are collected and then spent.

- Section 522 would extend eligibility for disability retirement benefits to those servicemembers participating in the career intermission pilot program.

- Section 641 would allow certain federal employees to stop paying premiums for military survivor benefits.

- Section 721 would clarify the applicability of the Federal Tort Claims Act to certain contractors of the defense health system. Claims against the government are often settled with payments from the Judgment Fund (a permanent indefinite appropriation).

- Section 1211 would extend DoD's authority to accept and spend gifts and contributions for the Commanders' Emergency Response Program in Afghanistan.

- Section 1241 would authorize DoD to accept and spend contributions from Australia, Canada, New Zealand, and the United Kingdom to operate a joint security cooperation program with those countries.

- Section 3119 would extend by five years through December 2018 the authority of the Secretary of Energy to accept and spend funds contributed for purposes of preventing nuclear terrorism worldwide. Based on information provided by DOE, such contributions have totaled about $80 million over the last five years and those contributions are typically obligated within one year.

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.

CBO Estimate of Pay-As-You-Go Effects for S. 3254 as reported by the Senate Committee on Armed Services on June 4, 2012

	By Fiscal Year, in Millions of Dollars												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2017	2012-2022
	NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	0	-4	-5	-7	-7	-8	-8	-9	-9	-9	-9	-31	-75

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill would preempt state lending laws by expanding the eligibility of dependents of servicemembers who are entitled to consumer credit protections under current law. Current law prohibits states from allowing creditors to charge rates on loans to covered servicemembers and dependents that are higher than loans to residents of the state. By expanding eligibility for those protections, the bill would broaden an existing preemption of some state lending laws. Because the preemption would impose no duty on state or local governments that would result in additional spending or the direct loss of revenues, CBO estimates that the cost of the mandate would fall well below the intergovernmental threshold established in UMRA ($73 million in 2012, adjusted annually for inflation).

By changing the definition of who qualifies as a dependent of a servicemember entitled to consumer credit protections, the bill would impose a private-sector mandate and require creditors to expand limits on interest rates and provide loan disclosures to a previously uncovered group of dependents of servicemembers. CBO estimates that the number of persons added to this group would be small and would not have a significant cost. Therefore, the cost to private entities would fall below the annual threshold established in UMRA for private-sector mandates ($146 million in 2012, adjusted annually for inflation).

PREVIOUS CBO ESTIMATE

On May 15, 2012, CBO transmitted a cost estimate for H.R. 4310, the National Defense Authorization Act for Fiscal Year 2013, as reported by the House Committee on Armed Services on May 11, 2012. Differences in the estimated costs of S. 3254 and H.R. 4310 reflect differences between the two bills.

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