CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 15, 2012

H.R. 4310
National Defense Authorization Act for Fiscal Year 2013

As reported by the House Committee on Armed Services on May 11, 2012

SUMMARY

H.R. 4310 would authorize appropriations totaling $637 billion 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, H.R. 4310 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 $626 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 estimates they would raise net costs by about $57 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.

H.R. 4310 contains provisions that would increase or decrease components of direct spending. CBO estimates that, on net, those changes would decrease direct spending by $554 million over the 2013-2017 period and by $44 million over the 2013-2022 period. Enacting the bill would not affect 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 would preempt state laws governing child custody in some cases. 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 ($73 million in 2012, 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 ($146 million in 2012, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4310 is summarized in Table 1. Almost all of the $637 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: $210 million primarily for the Department of Veterans Affairs (function 700—veterans benefits and services); $110 million for the Maritime Administration (function 400—transportation); $68 million for the Armed Forces Retirement Home (function 600—income security); $15 million for the Naval Petroleum Reserves (function 270—energy); and an estimated $315 million over the 2013-2017 period, primarily for programs affecting procurement with small businesses (function 800—general government).

The provisions that would affect direct spending are for activities within budget functions 050, 600, and 550 (health).

TABLE 1. BUDGETARY IMPACT OF H.R. 4310, 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	547,196	30	30	30	30	547,316
Estimated Outlays	349,297	119,925	42,611	17,395	7,528	536,755
Estimated Authorization of Regular Appropriations for 2013 for Accrual Payments [a]						
Estimated Authorization Level	672	0	0	0	0	672
Estimated Outlays	672	0	0	0	0	672

(Continued)

TABLE 1. Continued

Specified Authorization of Appropriations for Overseas Contingency Operations (OCO)						
Authorization Level	88,633	0	0	0	0	88,633
Estimated Outlays	48,053	27,502	8,574	2,624	772	87,524
Estimated Authorization of Appropriations for the Pakistan Counterinsurgency Fund (OCO) [b]						
Estimated Authorization Level	800	0	0	0	0	800
Estimated Outlays	120	240	240	120	80	800
Other Authorizations of Appropriations [c]						
Estimated Authorization Level	41	56	61	76	81	315
Estimated Outlays	31	51	61	76	81	300
Total						
Estimated Authorization Level	637,343	86	91	106	111	637,737
Estimated Outlays	398,173	147,718	51,485	20,215	8,460	626,051
CHANGES IN DIRECT SPENDING [d]						
Estimated Budget Authority	-73	-152	-125	-124	-82	-556
Estimated Outlays	-33	-152	-137	-137	-95	-554

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. 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. This authorization reflects the estimated cost of section 1217, 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.

c. These are estimated authorizations in title XVI, which would affect procurement with small businesses, and section 1111, which would establish within the Executive Office of the President a Committee on National Security Personnel.

d. In addition to the changes in direct spending shown above, H.R. 4310 would have effects beyond 2017. CBO estimates that over the 2013-2022 period, H.R. 4310 would decrease direct spending by $44 million (see Table 4).

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 4310 will be enacted near the start of fiscal year 2013 and that the authorized and estimated amounts will be appropriated.

Spending Subject to Appropriation

The bill would authorize appropriations for 2013 totaling $637 billion, of which $548 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 ($547 billion) would be specifically authorized as follows: $529 billion for DoD and $19 billion for atomic energy defense activities within DOE and various other programs (see Table 2).[1]

The $529 billion that would be authorized for DoD's base budget represents a decrease of $1 billion (0.2 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 $4 billion (4 percent), military construction and family housing by $2 billion (16 percent), and research and development by $1 billion (1 percent). Those decreases, however, would be largely offset by a $12 billion (6 percent) increase in authorizations for operation and maintenance. The amount authorized for DoD's base budget also reflects CBO's estimate of the additional amount needed—$672 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 $19 billion that would be authorized for 2013 represents a $1 billion (7 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—$89 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 (22 percent) compared to the $115 billion appropriated for 2012. Authorized funding for operation and maintenance would decrease by $24 billion (27 percent), while funding envisioned for procurement would decline by $6 billion (36 percent). Increased authorizations for military personnel of $3 billion (25 percent) and for other categories of spending would partially offset those declines.

[1] In addition, the bill would authorize $30 million annually through 2017 for the National Guard to operate counterdrug training schools.

TABLE 2. SPECIFIED AUTHORIZATIONS IN H.R. 4310

	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	135,727	0	0	0	0	135,727
Estimated Outlays	128,270	6,725	170	37	0	135,202
Operation and Maintenance						
Authorization Level [b]	209,005	30	30	30	30	209,125
Estimated Outlays	148,914	45,017	9,062	2,229	748	205,969
Procurement						
Authorization Level	100,424	0	0	0	0	100,424
Estimated Outlays	21,442	33,777	23,691	11,763	4,873	95,546
Research and Development						
Authorization Level	70,387	0	0	0	0	70,387
Estimated Outlays	34,783	25,485	5,264	2,126	1,348	69,006
Military Construction and Family Housing						
Authorization Level	10,985	0	0	0	0	10,985
Estimated Outlays	1,602	3,628	3,328	1,242	569	10,369
Revolving Funds						
Authorization Level	2,124	0	0	0	0	2,124
Estimated Outlays	1,747	311	35	19	7	2,119
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	528,652	30	30	30	30	528,772
Estimated Outlays	336,933	114,873	41,497	17,381	7,528	518,211
Atomic Energy Defense Activities						
Authorization Level[c]	18,143	0	0	0	0	18,143
Estimated Outlays	12,076	4,976	1,090	0	0	18,142

(Continued)

TABLE 2. Continued

	By Fiscal Year, in Millions of Dollars					
	2013	2014	2015	2016	2017	2013-2017
Other Programs						
Authorization Level[d]	402	0	0	0	0	402
Estimated Outlays	288	76	24	14	0	402
Subtotal, Authorization of Regular Appropriations						
Authorization Level	547,196	30	30	30	30	547,316
Estimated Outlays	349,297	119,925	42,611	17,395	7,528	536,755
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	62,451	0	0	0	0	62,451
Estimated Outlays	31,736	21,933	5,885	1,701	384	61,639
Procurement						
Authorization Level	10,308	0	0	0	0	10,308
Estimated Outlays	2,365	4,090	2,428	832	359	10,074
Research and Development						
Authorization Level	1,161	0	0	0	0	1,161
Estimated Outlays	517	469	100	33	24	1,143
Military Construction						
Authorization Level	151	0	0	0	0	151
Estimated Outlays	2	30	66	36	9	143
Working Capital Funds						
Authorization Level	503	0	0	0	0	503
Estimated Outlays	189	164	110	37	3	503

(Continued)

TABLE 2. Continued

	By Fiscal Year, in Millions of Dollars					
	2013	2014	2015	2016	2017	2013-2017
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	88,633	0	0	0	0	88,633
Estimated Outlays	48,053	27,502	8,574	2,624	772	87,524
Total Specified Authorizations						
Authorization Level	635,830	30	30	30	30	635,950
Estimated Outlays	397,350	147,427	51,184	20,019	8,299	624,279

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 $7,354 million and $271 million, respectively, for accrual payments to the Medicare-Eligible Retiree Health Care Fund. CBO estimates, however, that section 421 understates—by $672 million—the amount required for those payments, thus that amount has been added to the estimated cost of the bill.

b. The authorizations of $30 million annually through 2017 reflect specified authorizations made by section 1011, which would extend the authority of the National Guard to operate counterdrug schools.

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

d. This authorization is for veterans benefits and services ($210 million), the Maritime Administration ($110 million), the Armed Forces Retirement Home ($68 million), and the Naval Petroleum Reserves ($15 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 for 2013 by existing statute.

H.R. 4310 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 and modifying the minimum end-strength levels authorized in permanent law.

Under title IV, the authorized end strengths in 2013 for active-duty personnel and personnel in the selected reserves would total 1,402,483 and 843,733, respectively. Of those selected reservists, 78,552 would serve on active duty in support of the reserves. In total, active-duty end strength would decrease by 20,117 and selected-reserve end strength would decrease by 3,367 when compared with levels authorized under current law for 2013.

Active-Duty End Strengths. Compared with end-strength levels for 2013 authorized under current law, 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 2,417 fewer for the Air Force. CBO estimates that the total reduction in active-duty personnel of 20,117 servicemembers would decrease costs to DoD by $12.2 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 695, 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. The net number of full-time reservists who serve on active duty in support of the reserves would grow by 138 compared with 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 $458 million over the 2013-2017 period, assuming appropriations are reduced by the same amount.

Reserve Technicians End Strengths. Sections 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 reduce the required number of technicians by 68 relative to the levels currently authorized. CBO estimates that such a reduction would decrease costs for civilian salaries and expenses by $27 million over the 2013-2017 period.

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN H.R. 4310

	By Fiscal Year, in Millions of Dollars					
	2013	2014	2015	2016	2017	2013-2017
FORCE STRUCTURE						
Active-Duty End Strengths	-1,592	-2,357	-2,661	-2,767	-2,848	-12,225
Selected-Reserve End Strengths	-56	-83	-101	-108	-110	-458
Reserve Technicians End Strengths	-3	-6	-6	-6	-6	-27
Members within IDES	2,298	2,345	2,527	2,426	2,489	12,085
COMPENSATION AND BENEFITS (DOD)						
Expiring Bonuses and Allowances	1,117	658	374	373	184	2,706
Basic Allowance for Housing	9	9	7	7	7	39
TRICARE Pharmacy Copays						
Defense Health Program	-34	-29	-16	*	26	-53
MERHCF Accrual Payments	0	172	181	189	200	743
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
F/A-18 E/F Fighter Aircraft	0	1,162	0	0	0	1,162
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
East Coast Missile Defense Site	100	1,800	1,600	50	50	3,600
Chemistry and Metallurgy Research Building	100	400	400	400	500	1,800
Pakistan Counterinsurgency Fund	800	0	0	0	0	800
Small Business Procurement						
Department of Defense	20	35	40	50	70	215
Other Departments and Agencies	40	55	60	75	80	310
Troops to Teachers	15	15	15	15	15	75
Interagency Personnel Rotations	1	1	1	1	1	5

(Continued)

TABLE 3. Continued

Notes: Amounts shown in this table for 2013 (with the exception of amounts for the Pakistan Counterinsurgency Fund, provisions relating to small business procurement outside DoD, and Interagency Personnel Rotations) reflect costs of defense programs and are included in amounts specifically authorized to be appropriated by the bill (as reflected in Table 2 and summarized in Table 1). Associated amounts for 2014 through 2017 are not included in amounts specifically authorized in the bill but would be covered by specific authorizations in future years; those amounts therefore are not reflected in Tables 1 and 2.

The estimated costs for the Pakistan Counterinsurgency Fund, small business procurement outside DoD, and Interagency Personnel Rotations are not specifically authorized by the bill (and thus are not reflected in Table 2). Those costs, however, are reflected in Table 1 because they are in addition to costs that would be covered by specified authorizations in this bill (and presumably in future National Defense Authorization Acts).

IDES = Integrated Disability Evaluation System; MERHCF = Medicare-Eligible Retiree Health Care Fund.

* = less than $500,000.

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

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.

Members within the Integrated Disability Evaluation System. Section 404 would exclude servicemembers in the Integrated Disability Evaluation System (IDES) at the end of each fiscal year from counting toward the active-duty end strength for fiscal years 2013 through 2018. Servicemembers are in IDES while DoD evaluates their injuries or illnesses to determine whether they will return to duty or be discharged. Based on information from DoD, CBO estimates that on average about 20,700 active-duty servicemembers will be within IDES on the final day of the year over the 2013-2017 period. By omitting them from counting toward end strength, CBO estimates that this provision would effectively raise the authorized end strength by that same average amount, roughly 20,700. CBO estimates that the resulting increase in active-duty personnel would cost $12.1 billion over the 2013-2017 period (see top panel of Table 3).

Compensation and Benefits. H.R. 4310 contains several provisions that would affect compensation and benefits for uniformed personnel. The bill would specifically authorize regular appropriations of $136 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.

Pay Raises. Section 601 would raise basic pay for all individuals in the uniformed services by 1.7 percent, effective January 1, 2013. CBO estimates that the total cost of a 1.7 percent military pay raise would be $1.3 billion in 2013. Because that pay raise is the same as authorized under current law, CBO does not estimate any additional costs for this provision.

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.

Basic Allowance for Housing. Sections 602 and 603 would authorize DoD to increase the number and dollar amount of monthly payments of the basic allowance for housing (BAH), which helps servicemembers cover the cost of housing. Section 602 would allow certain dual military couples to earn a housing allowance while assigned to sea duty. Section 603 would protect certain members of the National Guard from a reduction in BAH when they transition between active duty and full-time National Guard duty. CBO estimates that implementing those provisions would have a net cost of $39 million over the 2013-2017 period.

TRICARE Pharmacy Copayments. Section 718 would set higher copayments for those who use the TRICARE pharmacy system beginning in 2013 and would limit the future growth of those copayments to increases in the annual cost-of-living adjustment (COLA) for military retired pay. Pharmaceutical costs for active-duty dependents and military retirees who are not Medicare-eligible are paid from discretionary funds and are discussed in this part of the estimate. Pharmaceutical costs for Medicare-eligible TRICARE beneficiaries are paid from the DoD Medicare-Eligible Retiree Health Care Fund (MERHCF), a mandatory account, and are discussed in the "Direct Spending" section of the estimate.

DoD has the authority to increase the pharmacy copayments under current law, and CBO estimates that there is at least some probability they will do so. By increasing copayments in 2013, CBO estimates that section 718 would initially decrease TRICARE spending. However, section 718 would also limit the future growth in the copayments to the annual COLA for military retired pay. Currently, CBO projects the COLA will increase by about 2 percent each year, which is less than the approximately 5 percent annual increase in pharmacy copayments CBO estimates would occur under current law. This restriction on DoD's ability to increase copayments in future years would lead to increased costs in later years. We estimate that section 718 would decrease net costs relative to current law by about $50 million over the 2013-2017 period, although over time it would increase costs.

In addition, CBO estimates section 718 would require DoD to increase accrual contributions to the MERHCF by about $740 million over that same period. For additional details about how CBO estimated the effects of section 718, see the related discussion in the “Direct Spending” section of this estimate. That discussion also includes background on the estimated impact on the discretionary accrual payments to the MERHCF.

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

Multiyear Procurement Contracts. H.R. 4310 would authorize the military departments to enter multiyear procurement contracts for five 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 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; 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 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 126 would authorize the Navy to enter a follow-on multiyear contract for up to 10 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 124 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.

Section 123 would authorize the Navy to purchase additional F/A-18 E/F fighter aircraft under an ongoing multiyear contract. The department, which was scheduled to purchase the final lot of those aircraft in fiscal year 2013, has now requested authority to order an additional 13 aircraft in 2014. Section 123 would authorize the Navy to extend its multiyear procurement contract for another year to purchase those additional aircraft at a cost of $1.2 billion, CBO estimates. The Navy estimates that extending the existing contract would require $59 million less in appropriations than buying the aircraft under a stand-alone annual contract.

Incrementally Funded Procurement Contracts. H.R. 4310 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 appropriations provided in subsequent appropriations acts. If incrementally funded contracts are cancelled 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 127 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 147 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.

East Coast Missile Defense Site. Section 223 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 2016. The bill also would require DoD to evaluate the use of ground-based interceptors (GBIs) versus Standard Missile-3 interceptors (SM-3s) for the new site. Based on the operational requirements to defend against intercontinental ballistic missile threats, for the purposes of this estimate, CBO assumed that the Missile Defense Agency (MDA) would deploy GBIs at the site.

MDA currently deploys a total of 30 operational GBIs in silos at Fort Greely, Alaska, and Vandenberg Air Force Base in California. Production of GBIs continues today as the MDA increases the inventory of spares and test interceptors. However, the GBIs are currently undergoing review to identify the cause of recent test failures, and the eventual cost to overcome those problems is not yet known. CBO estimates that under section 223, DoD would deploy 20 GBIs on the East Coast of the United States requiring appropriations of $3.6 billion over the 2013-2017 period, including the cost of buying 20 GBIs ($1.3 billion); buying ground equipment ($1.2 billion); developing the site, building the facilities, and constructing the silos ($1 billion); and operations ($100 million). Costs would be higher if the ongoing review of the GBIs increases the cost of the interceptors.

Although CBO assumes that MDA will deploy GBIs for the East Coast installation because they can defend against intercontinental ballistic missiles, MDA could choose to deploy SM-3 interceptors instead. In that case, CBO estimates that MDA would purchase 24 SM-3 Block IB interceptors, which would require appropriations of $1.2 billion over the 2013-2017 period. However, the Block IB interceptors have little or no capability against intercontinental ballistic missiles, and would thus need to be replaced by upgraded versions (and probably upgraded launchers) as those become available. Upgrading the SM-3s to the more capable versions would require additional appropriations after 2017.

Both GBIs and SM-3s are currently being produced. If it is not possible to step up the rates of production for those programs, meeting the deadline specified in section 223 could require diverting equipment that is intended for use at other locations or for other purposes. In that case, the appropriations required to purchase the interceptors would be required at a later date to backfill the currently planned inventory.

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 2804 would require that the facility's design and construction be placed under the jurisdiction of the Department of Defense and would authorize it as a military construction project for up to $3.5 billion. Section 2805 would eliminate the planned five-year deferral and require DOE and DoD to resume planning and design efforts, begin construction, and have the facility operational by 2024.

Section 4701 would authorize appropriations of $100 million for the project in 2013. Additional appropriations of $1.7 billion would be required over the 2014-2017 period to complete the facility, CBO estimates.

Extension of Pakistan Counterinsurgency Fund. Section 1217 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 appropriations 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.[2]

Small Business Procurement. Title XVI would make many changes to the laws that encourage federal agencies to contract for goods and services with small business. The bill would amend the definition of "bundled contracts" (the practice of combining two or more contracts into a single agreement) for the procurement of goods and services and require agencies to better justify the need for larger contracts rather than smaller ones that could be available to small business.

The federal government currently has a goal of acquiring 23 percent of most goods and services from small business. The legislation would expand the goal to 25 percent and increase the number of goods and services that small businesses could provide. Finally,

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

the bill would change contracting practices by the Small Business Administration (SBA) and agencies government-wide to help small business compete for federal contracts by expanding programs that allow them to partner with larger companies. Based on information from SBA, the General Services Administration, and agencies with large procurement budgets, CBO estimates that implementing title XVI would increase the need for appropriations by $525 million over the 2013-2017 period.

Troops to Teachers. Section 541 would permanently reauthorize the Troops to Teachers program and transfer its administration from the Department of Education to the Department of Defense.[3] The bill would limit annual obligations for the program to $15 million. CBO estimates reauthorizing the Troops to Teachers program would have discretionary costs of about $75 million over the 2013-2017 period.

Interagency Personnel Rotations. Section 1111 would establish a Committee on National Security Personnel within the Executive Office of the President to improve the integration of national security personnel across the federal government, and would identify areas for cooperation between federal agencies responsible for national security. The bill would authorize the committee to receive annual appropriations over the 2013 to 2017 period equal to the amounts expended on salaries and expenses for DoD's National Security Professional Development and Integration Office during 2012. Based on information from that office regarding the size of its workforce and its expenses, CBO estimates that the cost of implementing this provision would approach $1 million annually over the 2013-2017 period.

Direct Spending

Several provisions in H.R. 4310 would affect direct spending. CBO estimates that those provisions would decrease net direct spending by $44 million over the 2013-2022 period (see Table 4).

TRICARE Pharmacy Copayments. Section 718 would set higher copayments for those who use the TRICARE pharmacy system beginning in 2013 and would limit the future growth of those copayments to increases in the annual cost-of-living adjustment (COLA) for military retired pay. Under this provision, the copayments for brand name formulary drugs would increase from $12 in 2012 to $17 in 2013 for up to a 30-day supply at retail pharmacies and from $9 in 2012 to $13 in 2013 for up to a 90-day supply purchased through the TRICARE national mail-order pharmacy. In addition, this section would increase the copayments for non-formulary drugs, currently set at $25, to $44 for those

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[3] Funding for the Troops to Teachers program for fiscal years 2011 and 2012 was appropriated for the Department of Defense rather than the Department of Education.

purchased at retail points of service and to $43 for those purchased by mail-order. The copayments for generic drugs would remain unchanged and drugs dispensed at military treatment facilities would continue to be offered at no charge.

TABLE 4. ESTIMATED IMPACT OF H.R. 4310 ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2017	2013-2022
TRICARE Pharmacy Copayments												
Estimated Budget Authority	-30	-17	6	31	90	124	162	204	256	303	80	1,129
Estimated Outlays	-25	-19	3	26	80	119	156	197	248	296	65	1,081
Mail-Order Pharmacy Pilot Program												
Estimated Budget Authority	-18	-144	-146	-162	-178	-153	-118	-90	-68	-52	-648	-1,129
Estimated Outlays	-9	-141	-146	-161	-177	-155	-121	-92	-70	-53	-634	-1,125
Pentagon Maintenance Revolving Fund												
Estimated Budget Authority	-26	0	0	0	0	0	0	0	0	0	-26	-26
Estimated Outlays	0	-1	-9	-9	-4	-2	-1	0	0	0	-23	-26
Minimum Service for Retirement as an Officer												
Estimated Budget Authority	0	2	5	5	5	5	3	-1	-2	-2	17	20
Estimated Outlays	0	2	5	5	5	5	3	-1	-2	-2	17	20
Time-In-Grade Waivers												
Estimated Budget Authority	1	8	12	4	3	3	-1	-3	-3	-3	28	21
Estimated Outlays	1	8	12	4	3	3	-1	-3	-3	-3	28	21
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 in Direct Spending												
Estimated Budget Authority	-73	-152	-125	-124	-82	-23	44	108	182	245	-556	*
Estimated Outlays	-33	-152	-137	-137	-95	-32	34	99	172	237	-554	-44

Notes: Numbers may not sum to totals because of rounding.

* = between 0 and -$500,000.

Pharmaceutical costs for Medicare-eligible TRICARE beneficiaries are paid from the DoD Medicare-Eligible Retiree Health Care Fund, a mandatory account. (Pharmaceutical costs for active-duty dependents and military retirees who are not Medicare-eligible are paid from discretionary funds. CBO's evaluation of the pharmacy costs for that latter group of beneficiaries is discussed in the "Spending Subject to Appropriation" section of the estimate.)

Initially, the direct savings produced by the higher copayments under section 718 would be about $25 million a year. However, that provision would also limit the rate of future growth in the copayments to the annual COLA for military retired pay. Currently, CBO projects the COLA will increase by about 2 percent each year, which is less than the approximately 5 percent annual increase in pharmacy copayments CBO estimates would occur under current law. This restriction on DoD's ability to increase copayments in future years would quickly lead to copayments lower than those CBO estimates would otherwise occur, and would thus increase spending from the MERHCF.[4] On net, CBO estimates section 718 would increase spending from the MERHCF by about $1.1 billion over the 2013-2022 period.

Part of the funding for the MERHCF is derived from annual accrual payments made to that fund by the Treasury on DoD's behalf. Those accrual payments represent the future costs to the MERHCF of members currently serving in the military and are made at the beginning of each fiscal year. Relative to what CBO estimates would occur under current law, we estimate those accrual payments would have to be increased by about $740 million over the 2014-2017 period (see Table 3). Those payments are recorded as intragovernmental transactions and have no net impact on the federal budget deficit. However, they do count against DoD's top-line discretionary budget request, and so future discretionary allocations may need to be adjusted accordingly.[5] We expect section 718 would not be enacted in time to affect the accrual payments for 2013.

Mail-Order Pharmacy Pilot Program. Section 717 would establish a pilot program to require Medicare-eligible beneficiaries of the TRICARE pharmacy program to obtain refills of certain maintenance medications from TRICARE's national mail-order

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4 CBO projects that linking future increases in the pharmacy copayments to the COLA for military retired pay would result in increases of less than a dollar each year. We believe that DoD would prefer to increase copayments in whole dollar amounts. Because section 718 is unclear as to whether DoD can consider the cumulative increase in the COLA over several years when setting the copayments, CBO believes section 718 could effectively freeze those amounts at the 2013 levels, and we have reflected this view in our cost estimate.

5 The actual amount of the accrual payments are set by the DoD Office of the Actuary, and the actual need to increase the accrual payments because of section 718 would ultimately depend on their own assumptions about future changes in the copayments under current law, which may be substantially different than the copayments used by CBO in establishing its baseline.

pharmacy. This requirement would remain in place through calendar year 2017, although beneficiaries could opt out of the program after they have used the mail-order pharmacy for at least one year. (All spending by TRICARE for pharmacy costs attributable to Medicare-eligible beneficiaries comes from the MERHCF.)

Based on information from DoD, CBO believes that most maintenance medications would be included in this pilot program. Providing those medications through retail pharmacies to TRICARE beneficiaries who are Medicare-eligible costs DoD about $1 billion a year, on net. Data from DoD indicates that those same medications would cost the department about 19 percent less if purchased through the mail-order pharmacy, which means the savings from this pilot program could be as much as $200 million per year.

However, not all of those savings would be realized. First, some beneficiaries would choose to opt out of the pilot program after participating for a year. Information from DoD indicates that historically, about 10 percent of beneficiaries who use the mail-order pharmacy stop using it after a reasonable trial period. In addition, the pilot program would allow those with newly issued prescriptions to obtain the first 30-day supply at a retail point of service. Studies show that many people who start maintenance medications do not continue to use them past their initial period of usage. Based on those same studies, CBO estimates about 15 percent of all prescriptions would be those used less than 30 days, and not require transition to mail-order under this pilot program. Taking both of those effects into account, CBO estimates savings under section 717 of about $150 million a year for the years when the program would be fully operational, 2014 to 2017.

Savings would be less in 2013 because of the time needed to set up the program and the costs to transition millions of existing prescriptions to mail-order. There would also be some savings after 2018 because some beneficiaries who would be moved to the mail-order pharmacy would continue to use it after the pilot program ends. In total, CBO estimates section 717 would reduce direct spending by about $1.1 billion over the 2013-2022 period.

Pentagon Reservation Maintenance Revolving Fund (PRMRF). Section 1421 would transfer $26 million of unobligated balances from the PRMRF to the Treasury, to be deposited as miscellaneous receipts. This transfer would lower spending estimated to occur under current law because DoD would be unable to obligate and expend those amounts without a subsequent appropriation.

The PRMRF finances the maintenance, repair, and renovation of the Pentagon and certain other facilities in the national capital area using appropriations originally provided to various operation and maintenance accounts (and later transferred into the fund). Based on DoD's projection of balances through the end of 2013, CBO expects that under current law the $26 million in balances would not be obligated or spent in that year. As a result, CBO estimates that section 1421 would have no effect on outlays in 2013, but would lower spending by $26 million over the 2014-2022 period.

Force Shaping Authorities. Several sections of H.R. 4310 would enhance DoD's ability to reshape the officer corps—by making retirement more attractive or allowing longer careers—to better suit its current needs. CBO expects that three of those provisions would increase spending from the Military Retirement Fund in the near term, because those sections would encourage members to retire earlier than they otherwise would have under current law. However, by retiring earlier, those members would be accepting a smaller annuity, which would result in savings to the retirement fund over the long run. Similarly, one provision would allow members to remain in the service longer than they are currently allowed under current law. In this instance, the delayed retirements would result in savings in the near term, but eventually lead to higher costs.

Minimum Service for Retirement as an Officer. Officers who began their military careers as enlisted servicemembers must complete at least 10 years of commissioned service to retire as officers. Those with less than 10 years of commissioned service are generally retired at the highest enlisted grade they achieved. DoD currently has temporary authority (through 2013) to allow such members to retire as officers with a minimum of eight years of commissioned service. Section 504 would extend this authority through 2018. Based on data from DoD, CBO estimates that under this authority about 100 officers per year over the 2014-2018 period would retire earlier than they otherwise would have, which would increase costs, on net, by about $20 million over the 2014-2022 period.

Time-in-Grade Waivers. Currently, for officers to retire at the highest grade they achieved, they must serve at least three years in that grade. The service secretaries can waive this restriction and lower the requirement to two years in that grade, but such waivers may be granted to 2 percent of the officer population at most. Sections 505 and 506 would allow the services to grant waivers for up to 4 percent of the population of those in the grades of O-5 and O-6, and up to 5 percent of the population of those in the grades of O-7 and O-8. In addition, the Marine Corps would be authorized to grant time-in-grade waivers to an additional 5 percent of O-7s and O-8s (for a total of 10 percent).

Based on data from the services, CBO estimates that with this expanded authority about 1,300 additional officers would be granted time-in-grade waivers over the 2013-2018 period. However, because many of the officers could have been forced or encouraged to retire using existing authorities, such as early retirement boards or fewer promotions, CBO estimates the net increase in retirements would only be about half that amount, resulting in a net increase in spending of $21 million over the 2013-2022 period.

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 each year about 10 Warrant Officers would choose to remain in the service for additional years. 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.

- Section 333 would extend (through 2018) and expand a pilot program that would allow the military services to use working capital funds (WCFs) as a source of financing for the upgrading of components in DoD weapons systems. Such programs could affect the spending of existing balances in the WCFs, but CBO expects such changes to be small.

- Section 521 would extend eligibility for disability retirement benefits to those servicemembers participating in the career intermission pilot program.

- Section 552 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.

- Section 651 would allow certain federal employees to stop paying premiums for military survivor benefits.

- Section 663 would extend certain benefits to members of the Coast Guard Reserve who are activated for domestic emergencies, including the possibility of early retirement and education assistance.

- Section 715 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 1111 would rescind unobligated balances from DoD's National Security Professional Development Implementation Office, and the second could result in a small number of Foreign Services Officers retiring one year later than they would have otherwise.

- Section 1201 would extend DoD's authority to accept gifts and contributions for the Commanders' Emergency Response Program in Afghanistan.

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 H.R. 4310 as reported by the House Committee on Armed Services on May 11, 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	-33	-152	-137	-137	-95	-32	34	99	172	237	-554	-44

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Mandates that Apply to Public and Private Entities

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 to be occupying the residence that secures a mortgage for the purpose of inquiries or applications for refinancing. Because of the small number of public lending institutions 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 ($73 million in 2012, 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 ($146 million in 2012, adjusted annually for inflation).

Mandates that Apply to Public Entities Only

Section 564 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.

ESTIMATE PREPARED BY:

Federal Costs:
    Defense Authorizations—Kent Christensen
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    Military and Civilian Personnel—Dawn Regan
    Troops to Teachers —Justin Humphrey
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