**CONGRESSIONAL BUDGET OFFICE**
**COST ESTIMATE**

June 10, 2016

# S. 2943
## National Defense Authorization Act for Fiscal Year 2017

*As reported by the Senate Committee on Armed Services*
*on May 18, 2016*

## SUMMARY

S. 2943 would authorize appropriations totaling an estimated $603.9 billion for the military functions of the Department of Defense (DoD), for certain activities of the Department of Energy (DOE), and for other purposes. In addition, S. 2943 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 $587.8 billion over the 2017-2021 period.

Of the amount authorized for 2017, $544.1 billion—if appropriated—would count against that year's defense cap set in the Budget Control Act (BCA), as amended. Another $0.2 billion authorized for nondefense programs would count against the nondefense cap and an additional $58.9 billion authorized and designated for overseas contingency operations would not be constrained by caps.

The bill also contains provisions that would affect the costs of defense programs funded through discretionary appropriations in 2018 and future years. Those provisions mainly would affect force structure, compensation and benefits, the military health system, and various procurement programs. CBO has analyzed the costs of a select number of those provisions and estimates that they would, on a net basis, decrease the cost of those programs relative to current law by about $14 billion over the 2018-2021 period. The net costs of those provisions in 2018 and beyond are not included in the total amount of outlays mentioned above because funding for those activities would be covered by specific authorizations in future years.

In addition, CBO estimates that enacting the bill would increase direct spending by $10.9 billion over the 2017-2026 period. S. 2943 would have an insignificant effect on revenues. Because enacting the bill would affect direct spending and revenues, pay-as-you-go procedures apply.

CBO estimates that enacting S. 2943 would increase net direct spending and on-budget deficits by more than $5 billion in each of the four consecutive 10-year periods beginning in 2027.

S. 2943 contains intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that the aggregate costs of the mandates would fall below the annual thresholds established in UMRA for intergovernmental and private-sector mandates ($77 million and $154 million in 2016, respectively, adjusted annually for inflation).

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of S. 2943 are shown in Table 1. Almost all of the $603.9 billion authorized by the bill would be for activities within budget function 050 (national defense). Some authorizations, however, fall within other budget functions, including $122 million for function 700 (veterans benefits and services); $64 million for the Armed Forces Retirement Home in function 600 (income security); and $188 million in function 150 (international affairs).

The budgetary effects of provisions that would affect direct spending fall in function 050 (national defense); function 250 (general science, space, and technology); function 400 (transportation); function 450 (community and regional development); function 500 (education, training, employment, and social services); function 550 (health); function 600 (income security); and function 750 (administration of justice).

## BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 2943 will be enacted near the start of fiscal year 2017 and that the authorized and estimated amounts will be appropriated near the beginning of each fiscal year.

**TABLE 1. BUDGETARY EFFECTS OF S. 2943, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2017**

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2017-2021 |
| **INCREASES IN SPENDING SUBJECT TO APPROPRIATION** | | | | | | |
| Authorization Levels for Appropriations Subject to the BCA Caps | | | | | | |
| Defense (base budget): | | | | | | |
| Specified Authorizations for the Departments of Defense and Energy | | | | | | |
| Authorization Level[a] | 543,491 | 500 | 0 | 0 | 0 | 543,991 |
| Estimated Outlays | 336,942 | 119,245 | 43,887 | 20,226 | 9,008 | 529,308 |
| Estimated Authorization for Additional Accrual Payments[b] | | | | | | |
| Estimated Authorization Level | 586 | 0 | 0 | 0 | 0 | 586 |
| Estimated Outlays | 586 | 0 | 0 | 0 | 0 | 586 |
| Estimated Authorization for the Selective Service[c] | | | | | | |
| Estimated Authorization Level | 2 | 4 | 5 | 7 | 7 | 25 |
| Estimated Outlays | 2 | 4 | 5 | 7 | 7 | 25 |
| Nondefense | | | | | | |
| Specified Authorizations for VA, the AFRH, and the State Department[d] | | | | | | |
| Authorization Level | 224 | 38 | 38 | 38 | 38 | 374 |
| Estimated Outlays | 181 | 63 | 40 | 38 | 38 | 358 |
| Estimated Authorizations for Various Departments and Agencies[e] | | | | | | |
| Estimated Authorization Level | 0 | 8 | 0 | 0 | 0 | 8 |
| Estimated Outlays | 0 | 8 | 0 | 0 | 0 | 8 |
| Subtotal | | | | | | |
| Estimated Authorization Level | 544,303 | 550 | 43 | 45 | 45 | 544,984 |
| Estimated Outlays | 337,711 | 119,320 | 43,932 | 20,271 | 9,053 | 530,285 |
| Specified Authorizations for Overseas Contingency Operations | | | | | | |
| Authorization Level | 58,891 | 0 | 0 | 0 | 0 | 58,891 |
| Estimated Outlays | 33,460 | 15,072 | 5,857 | 2,298 | 786 | 57,473 |
| Total | | | | | | |
| Estimated Authorization Level | 603,194 | 550 | 43 | 45 | 45 | 603,875 |
| Estimated Outlays | 371,171 | 134,392 | 49,789 | 22,569 | 9,839 | 587,758 |

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**TABLE 1. CONTINUED**

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2017-2021 |
| **INCREASES IN DIRECT SPENDING**[f] | | | | | | |
| Estimated Budget Authority | 1,187 | 454 | 487 | 589 | 697 | 3,414 |
| Estimated Outlays | 260 | 664 | 771 | 759 | 740 | 3,192 |

Notes: Except as discussed in footnotes b, c, and e below, the authorization levels in this table reflect amounts that would be specifically authorized by the bill (as reflected in Table 2). Some provisions in the bill also would affect the costs of defense programs in 2018 and future years; estimates for a select number of those provisions are shown in Table 3, but are not included above because specified authorizations in future NDAAs would cover funding for those activities.

AFRH = Armed Forces Retirement Home; BCA = Budget Control Act; MERHCF = Medicare-Eligible Retirement Health Care Fund; NDAA = National Defense Authorization Act; VA = Department of Veterans Affairs.

Numbers may not add up to totals because of rounding.

a. These authorizations reflect amounts that would be specifically authorized by the bill, including $1.0 billion over the 2017-2018 period (in section 882, for a new working capital fund), which CBO assumes would be appropriated in equal amounts over those two years.

b. This authorization reflects CBO's estimate of the added cost of certain accrual payments to the MERHCF required under current law but not fully reflected in the amounts specifically authorized by section 421 of the bill.

c. Section 591 would require women to register for a military draft, which would increase costs to the Selective Service System (a defense-related activity). Section 591 also would affect nondefense discretionary costs of the Pell Grant program (which are included under the heading "Estimated Authorizations for Various Departments and Agencies"), as well as associated direct spending costs (included under the heading of "Increases in Direct Spending").

d. These amounts reflect specified authorizations for an ongoing demonstration project within the Department of Veterans Affairs (section 1431: $122 million in 2017); activities of the Armed Forces Retirement Home (section 1432: $64 million in 2017) and for a grant program that would be administered by the State Department (section 1276). Authorized amounts for the grant program would total $38 million in 2017 and $150 million over the 2018-2021 period. An additional $38 million that would be authorized for 2022 is not reflected in this table.

e. This estimate reflects estimated costs for the extension of certain benefits to federal civilian workers who perform official duties in a combat zone and are employed by departments and agencies other than the Department of Defense (section 1152, $9 million), and the effects on programs in the Department of Education due to female registration in the Selective Service (section 591, savings of $1 million).

f. In addition to the changes in direct spending shown here (an increase of $3.2 billion over the 2017-2021 period), S. 2943 would have effects beyond 2021. CBO estimates that over the 2017-2026 period, S. 2943 would increase outlays by $10.9 billion (see Table 4).

## Spending Subject to Appropriation

For 2017, the bill would authorize an estimated $603.2 billion, nearly all of which ($602.6 billion) would be specifically authorized by the bill (see Table 2). The remaining $0.6 billion largely reflects CBO's estimate of the amount not specifically authorized by the bill that would be necessary to fund certain accrual payments required under current law.

**TABLE 2. SPECIFIED AUTHORIZATIONS OF APPROPRIATIONS IN S. 2943**

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2017-2021 |
| Specified Authorization Levels for Appropriations Subject to the BCA Caps | | | | | | |
| Defense (base budget) | | | | | | |
| Military Personnel[a] | | | | | | |
| Authorization Level | 134,018 | 0 | 0 | 0 | 0 | 134,018 |
| Estimated Outlays | 128,461 | 3,745 | 179 | 38 | 0 | 132,423 |
| Operation and Maintenance | | | | | | |
| Authorization Level | 206,743 | 0 | 0 | 0 | 0 | 206,743 |
| Estimated Outlays | 137,729 | 49,530 | 10,880 | 3,295 | 1,157 | 202,591 |
| Procurement | | | | | | |
| Authorization Level | 102,986 | 0 | 0 | 0 | 0 | 102,986 |
| Estimated Outlays | 20,932 | 32,240 | 24,048 | 13,192 | 5,958 | 96,370 |
| Research and Development | | | | | | |
| Authorization Level | 71,227 | 0 | 0 | 0 | 0 | 71,227 |
| Estimated Outlays | 34,975 | 25,964 | 5,193 | 2,284 | 1,309 | 69,725 |
| Military Construction and Family Housing | | | | | | |
| Authorization Level | 7,477 | 0 | 0 | 0 | 0 | 7,477 |
| Estimated Outlays | 722 | 1,983 | 2,204 | 1,249 | 531 | 6,689 |
| Working Capital Funds | | | | | | |
| Authorization Level | 1,872 | 500 | 0 | 0 | 0 | 2,372 |
| Estimated Outlays | 1,268 | 488 | 313 | 202 | 71 | 2,342 |
| General Transfer Authority | | | | | | |
| Authorization Level | 0 | 0 | 0 | 0 | 0 | 0 |
| Estimated Outlays | 200 | -80 | -60 | -40 | -20 | 0 |
| Subtotal, Department of Defense | | | | | | |
| Authorization Level | 524,323 | 500 | 0 | 0 | 0 | 524,823 |
| Estimated Outlays | 324,287 | 113,870 | 42,757 | 20,220 | 9,006 | 510,140 |

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**TABLE 2. CONTINUED**

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2017- 2021 |
| Atomic Energy Defense Activities | | | | | | |
| Authorization Level[b] | 19,168 | 0 | 0 | 0 | 0 | 19,168 |
| Estimated Outlays | 12,655 | 5,375 | 1,130 | 6 | 2 | 19,168 |
| Subtotal, Defense | | | | | | |
| Authorization Level | 543,491 | 500 | 0 | 0 | 0 | 543,991 |
| Estimated Outlays | 336,942 | 119,245 | 43,887 | 20,226 | 9,008 | 529,308 |
| Nondefense | | | | | | |
| Department of Veterans Affairs and Other Departments and Agencies | | | | | | |
| Authorization Level[c] | 224 | 38 | 38 | 38 | 38 | 374 |
| Estimated Outlays | 181 | 63 | 40 | 38 | 38 | 358 |
| Subtotal (subject to caps) | | | | | | |
| Authorization Level | 543,715 | 538 | 38 | 38 | 38 | 544,365 |
| Estimated Outlays | 337,123 | 119,308 | 43,927 | 20,264 | 9,046 | 529,666 |
| Specified Authorization Levels Designated for Overseas Contingency Operations | | | | | | |
| Military Personnel | | | | | | |
| Authorization Level | 3,562 | 0 | 0 | 0 | 0 | 3,562 |
| Estimated Outlays | 3,398 | 114 | 4 | 0 | 0 | 3,516 |
| Operation and Maintenance | | | | | | |
| Authorization Level | 45,137 | 0 | 0 | 0 | 0 | 45,137 |
| Estimated Outlays | 26,756 | 11,630 | 3,773 | 1,430 | 466 | 44,055 |
| Procurement | | | | | | |
| Authorization Level | 9,504 | 0 | 0 | 0 | 0 | 9,504 |
| Estimated Outlays | 2,948 | 3,137 | 2,003 | 843 | 309 | 9,240 |
| Research and Development | | | | | | |
| Authorization Level | 374 | 0 | 0 | 0 | 0 | 374 |
| Estimated Outlays | 166 | 147 | 31 | 13 | 8 | 365 |
| Military Construction | | | | | | |
| Authorization Level | 172 | 0 | 0 | 0 | 0 | 172 |
| Estimated Outlays | 5 | 51 | 60 | 29 | 11 | 156 |
| Working Capital Funds | | | | | | |
| Authorization Level | 141 | 0 | 0 | 0 | 0 | 141 |
| Estimated Outlays | 99 | 28 | 12 | 1 | 1 | 141 |

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**TABLE 2. CONTINUED**

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2017- 2021 |
| Special Transfer Authority | | | | | | |
| Authorization Level | 0 | 0 | 0 | 0 | 0 | 0 |
| Estimated Outlays | 88 | -35 | -26 | -18 | -9 | 0 |
| Subtotal OCO | | | | | | |
| Authorization Level | 58,891 | 0 | 0 | 0 | 0 | 58,891 |
| Estimated Outlays | 33,460 | 15,072 | 5,857 | 2,298 | 786 | 57,473 |
| Total Specified Authorizations | | | | | | |
| Authorization Level | 602,606 | 538 | 38 | 38 | 38 | 603,256 |
| Estimated Outlays | 370,583 | 134,380 | 49,784 | 22,562 | 9,832 | 587,139 |

Notes: This table reflects 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 affect costs in 2018 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 some of those provisions.

Numbers may not add up to totals because of rounding; BCA = Budget Control Act; OCO = Overseas Contingency Operations.

a. The authorization of appropriations for military personnel in section 421 includes $6,367 million for accrual payments to the Medicare-Eligible Retiree Health Care Fund. CBO estimates, however, that amount understates—by $586 million—the amount required for those payments; thus $586 million has been added to the estimated cost of the bill, as reflected in Table 1.

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

c. This reflects authorizations for the Department of Veterans Affairs ($122 million in 2017), for the Armed Forces Retirement Home ($64 million in 2017), and for a grant program that would be administered by the State Department. Authorized amounts for the grant program would total $188 million over the 2017-2021 period. An additional $38 million that would be authorized in 2022 is not reflected in this table. This estimate does not reflect the cost of programs in title 35 for the Maritime Administration because authorized funding for those activities is already contained in current law.

Under S. 2943, specified authorizations for defense programs would total $602.4 billion, an increase of $3.3 billion (1 percent) compared to amounts appropriated for 2016. Operation and maintenance would receive the largest increase ($7.4 billion, or 3 percent), followed by research and development ($2.6 billion, or 4 percent). Procurement would decline by $6.4 billion (5 percent), while authorized funding for all other categories combined would decrease by $0.3 billion (less than 1 percent).

Of the amount specifically authorized, $543.5 billion—plus the estimated $0.6 billion mentioned above—would cover "base" budget costs that, if appropriated, would count against the 2017 cap on defense appropriations. Another $58.9 billion would be for overseas contingency operations and if appropriated, would not be subject to that cap. The remaining $0.2 billion specified for nondefense appropriations would count against the nondefense cap.

**TABLE 3. ESTIMATED COSTS FOR SELECTED PROVISIONS IN S. 2943**

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2017-2021 |
| **FORCE STRUCTURE** | | | | | | |
| Active-Duty End Strengths | -1,990 | -3,368 | -3,734 | -3,962 | -4,070 | -17,124 |
| Selected-Reserve End Strengths | -139 | -332 | -403 | -447 | -459 | -1,780 |
| Reserve Technicians End Strengths | -16 | -33 | -34 | -35 | -36 | -154 |
| **COMPENSATION AND BENEFITS** | | | | | | |
| Lower Pay Raise | -338 | -460 | -474 | -490 | -507 | -2,269 |
| Basic Allowance for Housing | 30 | -70 | -390 | -700 | -880 | -2,010 |
| Expiring Bonuses and Allowances | 826 | 480 | 292 | 247 | 147 | 1,992 |
| Continuation Payments | 0 | 1,035 | 400 | 120 | -20 | 1,535 |
| Civilian Voluntary Separation Incentive Pay | 125 | 125 | 125 | 125 | 215 | 625 |
| Civilian Benefits in a Combat Zone | | | | | | |
| Department of Defense[a] | 0 | 45 | 0 | 0 | 0 | 45 |
| **MILITARY HEALTH SYSTEM** | | | | | | |
| TRICARE Cost-Sharing | 100 | -270 | -470 | -560 | -650 | -1,850 |
| TRICARE Pharmacy Benefits | | | | | | |
| Defense Health Program | -32 | -84 | -116 | -188 | -220 | -640 |
| Accrual Payments MERHCF | 0 | -350 | -360 | -380 | -410 | -1,500 |
| Private Insurance Pilot | 15 | 15 | 80 | 110 | 120 | 340 |
| New TRICARE Support Contracts | 0 | 25 | 25 | 25 | 50 | 125 |
| Autism Demo Program | 40 | 40 | 10 | 0 | 0 | 90 |
| Reimbursements to States for Vaccinations | 6 | 7 | 7 | 7 | 7 | 34 |
| FEDVIP | 0 | -2 | -3 | -4 | -5 | -14 |
| **OTHER PROVISIONS** | | | | | | |
| Multiyear Procurement Contracts | | | | | | |
| H-60M Black Hawk Helicopters | 755 | 985 | 1,141 | 868 | 1,094 | 4,843 |
| AH-64E Apache Helicopters | 881 | 885 | 981 | 945 | 834 | 4,526 |
| Construction of LHA-8 Ship | 1,623 | 1,679 | 0 | 0 | 0 | 3,302 |
| Share-in-Savings Contracts | 0 | -200 | -400 | -700 | -900 | -2,200 |
| Boards for Correction of Military Records | 20 | 40 | 40 | 40 | 40 | 180 |
| Small Business Programs | 0 | 35 | 36 | 37 | 37 | 145 |
| Athletic Shoes | 21 | 7 | 7 | 7 | 8 | 50 |

Notes: Amounts shown in this table for 2017 are included in the amounts that would be specifically authorized to be appropriated by the bill (as reflected in Table 2 and summarized in Table 1). Amounts shown in this table for 2018-2021 would not be specifically authorized by the bill (and therefore are not reflected in Tables 1 and 2); rather, nearly all of those amounts would be covered by specified authorizations in future National Defense Authorization Acts.

FEDVIP = Federal Employees Dental/Vision Program; MERHCF = Medicare Eligible Retiree Health Care Fund.

a. This provision also would increase costs in 2018 for departments and agencies other than the Department of Defense by an estimated $9 million. Those costs are included in Table 1 under “Estimated Authorizations for Various Departments and Agencies.”

S. 2943 also contains provisions that would affect the cost of various discretionary programs in future years. Most of those provisions would affect end strength (the size of the military forces at the end of a fiscal year), military compensation and benefits, the military health system, and authorities related to the acquisition of weapons systems. The estimated effects of some of those provisions are shown in Table 3 and discussed below. The following sections discuss how those provisions would affect the need for discretionary appropriations in future years.

**Force Structure.** The bill would affect the force structure of the various military services by setting end-strength levels for 2017.

Under title IV, the authorized end strengths in 2017 for active-duty personnel and personnel in the selected reserves would total 1,281,900 and 808,200, respectively. Of those selected reservists, 76,351 would serve on active duty in support of the reserves. In total, active-duty end strength would decrease by 27,015 and selected-reserve end strength would decrease by 9,800 when compared with levels authorized under current law for 2017. The specified end-strength levels for each component of the armed forces are detailed below.

*Active-Duty End Strengths.* Compared with end strengths authorized under current law for 2017, section 401 would authorize decreases in active-duty personnel across all four services: 15,000 fewer for the Army, 6,300 fewer for the Navy, 3,715 fewer for the Air Force, and 2,000 fewer for the Marine Corps. CBO estimates that the total decline in active-duty personnel of 27,015 service members would reduce costs to DoD by $17.1 billion over the 2017 -2021 period. Those savings include reduced spending for compensation and benefits as well as lower costs for individual training, base support, and unit operations, which are paid out of the operation and maintenance accounts.

*Selected-Reserve End Strengths.* Sections 411 and 412 would authorize the end strengths for reserve components, including those who serve on active duty in support of the reserves. Under this bill, four of the six reserve components would experience decreases in end strength: 7,000 fewer for the Army Guard, 3,000 fewer for the Army Reserve, 400 fewer for the Marine Corps Reserve, and 200 fewer for the Air Force Reserve. End strength would increase for the remaining two components: 600 more for the Navy Reserve and 200 more for the Air National Guard. As part of those changes, the number of full-time reservists who serve on active duty in support of the reserves would decline by 654 compared with current authorized end-strength levels for 2017. CBO estimates that, on net, implementing those provisions would decrease costs for salaries and expenses for selected reservists by $1.8 billion over the 2017-2021 period.

*Reserve Technicians End Strengths.* Sections 413 and 414 would authorize the end-strength levels for military technicians. Section 413 would set the end strength 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 cost to DoD of the reserve pay for dual-status technicians is included in the section above.) Section 414 would set the maximum end-strength levels for non-dual status technicians. The combined effect of those sections would be a net reduction in reserve technicians of 346. CBO estimates that the combined effect of implementing those two sections would decrease costs for civilian salaries and expenses by $154 million over the 2017-2021 period.

**Compensation and Benefits.** S. 2943 contains several provisions that would affect compensation and benefits for uniformed personnel and civilian employees of DoD. The bill would specifically authorize regular appropriations of $134.0 billion for the costs of military pay and allowances in 2017. For related costs resulting from overseas contingency operations (primarily in Afghanistan), the bill would authorize appropriation of an additional $3.6 billion for 2017.

*Lower Pay Raise.* Section 601 would reduce the increase in basic pay for members of the uniformed services that is scheduled to go into effect on January 1, 2017. Under current law, the across-the-board increase will be 2.1 percent, and CBO estimates the increase will cost $1.4 billion in 2017. This section would reduce that pay raise by 0.5 percentage points, to 1.6 percent. CBO estimates that such a change would reduce the cost of the pay raise by $338 million in 2017 and by almost $2.3 billion over the 2017-2021 period.

*Basic Allowance for Housing (BAH).* DoD provides a monthly allowance to members of the military in the United States who are not provided use of government-owned housing. The basic allowance for housing compensates those members for the cost of obtaining private housing . BAH rates are calculated each year based on the cost of housing at each duty station, and are higher for members in higher pay grades and for those with dependents. Section 604 would modify that benefit in three ways: members would be reimbursed for their actual cost of housing up to a maximum BAH rate; members who share housing with other service members, including service members who are married to other service members, would receive a monthly BAH payment divided by the number of members who live together; and the maximum BAH rate would vary by pay grade and geographic location, without regard to whether or not a member has dependents. Those changes would be effective after January 1, 2018, and would only apply after a service member moves to a new permanent-duty location (CBO estimates that about one-third of service members move each year). On net, CBO estimates that implementing section 604 would reduce spending for this program by $2.0 billion over the 2018-2021 period.

On the basis of information from DoD, CBO expects that DoD would implement those changes in a way that provides the most favorable outcome for service members. Following that reasoning, CBO assumes that DoD would no longer provide two BAH rates—one for those with dependents and one for those without dependents—and thus would pay one BAH at the higher of the two rates. Therefore, the first two changes would lower BAH payments and the third change would increase BAH payments, compared to such payments under current law.

The three changes to BAH would affect service members differently depending on whether they are married to a service member , married to a civilian, or are single. Some of the more notable changes for those populations are summarized below:

- Under current law about 38,000 dual-military couples receive two BAH payments. Those with dependents receive one BAH at the with-dependent rate and one BAH at the lower, without-dependent rate. Couples without dependents earn two BAH payments at the without-dependent rate. Under section 604, couples who share a home, about 28,000, would see a reduction in BAH. Couples who maintain two households, because their duty stations are far apart, would see an increase in BAH payments. On net, CBO estimates that implementing section 604 for dual-military couples would decrease costs to DoD by $1.0 billion over the 2018-2021 period.

- CBO estimates that about 540,000 service members are married to civilians and would see an average decrease in monthly BAH payments under the new system. Those service members would probably only be affected by the change to reimburse for actual housing costs up to a maximum BAH. CBO estimates that implementing section 604 for members who are married to civilians would decrease costs to DoD by $1.6 billion over the 2018-2021 period.

- The effect of the new BAH policies on single service members would depend on whether those members have dependents and whether they choose to live with other military members. Although some single members would see reductions in BAH because the BAH could not exceed the actual cost of housing, most single members would see their BAH increase because CBO expects that the new rate would be higher than the current without-dependent rate that applies to most single members. On net, CBO estimates that implementing section 604 for single members would increase costs to DoD by about $400 million over the 2018-2021 period.

Section 604 also would amend the overseas housing allowance (OHA). Roughly 50,000 service members earn annual OHA payments totaling $1.5 billion. Under current law, DoD already calculates OHA payments as the lesser of actual housing costs or the maximum OHA rate for housing areas overseas. Thus, the reduced costs from changing OHA would be smaller than the reductions estimated for BAH. CBO estimates that implementing the changes to OHA under section 604 would decrease costs to DoD by roughly $100 million over the 2018-2021 period.

CBO estimates that implementing the modified BAH and OHA benefits would significantly increase administrative costs for the program. DoD would need to review leases and mortgages to verify actual housing costs and determine how much BAH to pay. Also, DoD would need to collect information from service members about who they are living with and verify the accuracy of that information. CBO estimates that DoD would need to hire about 500 additional civilian employees to handle those new tasks. DoD would need to begin hiring and training new employees in 2017 to be ready to implement the changes by January of 2018. Hiring and training those employees would continue to phase in as more service members would fall under the modified BAH rules.

In addition, DoD would need to modify its existing information technology (IT) systems to collect and monitor the necessary data to administer changes to the housing allowance program. CBO estimates that one-time costs to design, develop and deploy those IT changes would total roughly $20 million ($5 million for each of the four military services) in 2017. In total, CBO estimates that those administrative expenses would increase costs to DoD by $300 million over the 2018-2021 period.

*Expiring Bonuses and Allowances.* Sections 611 through 615 would extend for another year DoD's authority to enter into 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, 2016. Some bonuses are paid in lump sum, while others are paid in annual or monthly installments over a period of obligated service. Based on DoD's budget submission for fiscal year 2017, CBO estimates that extending that authority for one year would cost $2.0 billion over the 2017-2021 period.

*Continuation Payments.* Section 633 would change two features of the continuation payments that are authorized as part of the new retirement system established in the National Defense Authorization Act for Fiscal Year 2016 (subtitle D of title VI of Public Law 114-92). Section 633 would:

- Create a four-year window concluding with the end of the member's 12th year of service during which DoD could pay the continuation payment (under current law, DoD must pay the continuation payment at the end of the member's 12th year of service); and

- Change the period of additional service a member owes upon receiving continuation pay from four years to not less than three years.

CBO expects that under the bill, DoD would make continuation payments to one-fourth of each enlistment cohort during each of their 9th through 12th years of service. For the three enlistment cohorts that will have completed more than eight but fewer than 12 years of service when the new retirement system goes into effect in 2018, CBO assumes that DoD would spread their continuation payments evenly throughout their one- to three-year windows.

Under section 633, continuation payments would be made two years earlier, on average, than under current law—at the end of a service member's 10th year of service instead of his 12th year of service. As a result, the salary on which the average continuation payment is calculated would be based on two fewer years of service, and would include two fewer military pay increases. Those effects would reduce the average continuation payment by about 10 percent.

Because DoD could offer continuation payments earlier, it would be able to pay some individuals who otherwise would have left before completing 12 years of service. However, DoD also could require more than four years of additional service under the bill, which would discourage some service members from accepting the continuation pay and remaining in the service. CBO expects those effects would largely offset.

In total, CBO estimates that implementing the changes in section 633 would increase spending subject to appropriation by $1.5 billion over the 2018-2021 period.

*Civilian Voluntary Separation Incentive Pay*. Section 1109 would increase the amount of the lump-sum payment that DoD can offer to civilian employees to entice them to separate voluntarily; that amount would increase from the current ceiling of $25,000 to $40,000. On the basis of information from DoD, CBO estimates that each year about 5,900 DoD civilian employees would receive voluntary separation incentive payments (VSIP) of $40,000 over the 2017-2021 period. CBO estimates that under current law, 75 percent of those civilian employees would take VSIP at the current maximum amount of $25,000, so that the incremental cost to DoD for those 4,400 employees would be $15,000. The cost for the remaining 1,500 employees would be the full $40,000. On that basis, CBO estimates that raising the cap to $40,000 for VSIP would cost DoD $625 million over the 2017-2021 period.

*Civilian Benefits in a Combat Zone.* Section 1152 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, 2017, include death gratuities, paid leave and travel for one trip home, and up to three leave periods per year for rest and recuperation. Based on information from DoD and the Office of Personnel Management, CBO estimates that about 2,400 civilian employees of DoD and 500 employees of other federal agencies will work in a designated combat zone in 2018 and, under this provision, would receive an average benefit that would cost about $18,600 a year. Thus, CBO estimates that in 2018, implementing section 1152 would increase the costs of civilian employees of DoD by $45 million and of other federal agencies by $9 million. (The $9 million for other agencies is included in the amount shown in Table 1 for nondefense estimated authorizations under the heading “Estimated Authorizations for Various Departments and Agencies.”)

**Military Health System**. Title VII would make significant changes to TRICARE, the health benefits program for members and retirees of the uniformed services and their families. The changes would affect the structure and cost-sharing for most of the TRICARE plans and the TRICARE Pharmacy benefit. Several sections would encourage DoD to limit the services it provides in hospitals and clinics that it owns and operates to those services directly related to its core competencies and military readiness, and to provide all other care through DoD’s network of private providers. Other changes in title VII would allow TRICARE beneficiaries to participate in other federal health-benefit programs, modify payments rates to providers of certain therapies for children with autism, and authorize payments to states for childhood vaccinations.

*TRICARE Cost Sharing***.** Section 701 would make a number of changes to TRICARE that in total, would reduce net costs by about $1.9 billion over the 2017-2021 period, CBO estimates. Most of those changes would take effect at the start of calendar year 2018.

TRICARE benefits are provided through several different plans, of which the most popular are TRICARE Prime—a health maintenance organization—and TRICARE Standard/Extra—a fee-for-service plan where beneficiaries can manage their own care but pay less out-of-pocket if they use providers that are in the TRICARE network.[1] DoD also has separate benefit plans for members and former members of the Selected Reserve and for retirees, survivors, and their family members who are eligible for Medicare; section 701 would have smaller effects on those programs.

Under current law, active-duty members are not charged for medical care. Their dependents also face no charges if they enroll in Prime but they do have to pay deductibles and coinsurance if they use Standard/Extra. Retirees, survivors, and their family members who are not eligible for Medicare are charged enrollment fees to enroll in Prime and must make copayments, and they must pay deductibles and coinsurance to use Standard/Extra.[2] Section 701 would change how TRICARE benefits are provided to some of those groups. Two groups would see no changes under this provision: active-duty service members and the families of service members who enroll in TRICARE Prime. Some of the more notable changes are summarized below:

1. Beneficiaries in the fee-for-service option can use both network and non-network providers. When beneficiaries use a network provider in the fee-for-service option they are using the TRICARE Extra benefit; when they use a non-network provider they are using TRICARE Standard.
2. For this estimate the term “coinsurance” means a pre-determined percentage of the allowable charges. The term “copayment” means a fixed dollar payment for each service. Under the TRICARE Prime and TRICARE Choice plans, most cost sharing would take the form of copayments, although there would still be coinsurance in certain instances, such as when a beneficiary receives care from non-network providers.

- The fee-for-service plan, TRICARE Standard/Extra, would be renamed TRICARE Choice and dependents of active-duty members who enroll in that plan would be required to make copayments for care administered by private providers in TRICARE's network.[3]

- Current retirees, survivors, and their families would have to pay enrollment fees to obtain benefits under either TRICARE Prime or TRICARE Choice. The fees would be higher than current enrollment fees for TRICARE Prime and TRICARE Standard/Extra (which currently has no enrollment fee). Those beneficiaries also would have higher copayments under TRICARE Prime, and those who use TRICARE Choice would have a new schedule of copayments instead of the coinsurance currently required by TRICARE Standard/Extra.

- Certain disabled retirees and survivors of members who die on active duty would have no enrollment fees and the same cost sharing as active-duty family members.

- Retirees, survivors, and their dependents would have their enrollment fees reduced by half if they maintain other health insurance (such as through an employer) and use their TRICARE benefit only as a second payer.

The enrollment fee for TRICARE Prime would increase in 2018 by a specified amount and would then grow at the same rate of growth as the Consumer Price Index for medical services every year thereafter. The enrollment fee for TRICARE Choice would increase by a specified amount each year from 2018 through 2023 with the same adjustment as for Prime for every year thereafter. All copayments would increase each year by the rate of the cost-of-living adjustment for military retired pay.

The budgetary effects of the changes on active-duty family members would be negligible. Eighty-five percent of active-duty family members are enrolled in TRICARE Prime, and their cost sharing would generally be unchanged. The largest effects would result from changes in cost sharing requirements for retirees. Currently, about 600,000 retiree households rely on TRICARE Prime as the primary payer for their health care. Of those households, about 200,000 retirees enroll only themselves, and about 400,000 enroll both themselves and their family members. Under current law, CBO estimates that the average out-of-pocket costs for those who enroll only themselves in Prime will be about $525 in 2018 and the average out-of-pocket cost for those who enroll both themselves and their

3. The copayments for prescription drugs charged under current law would not be changed by this section.

family members will be about $1,250.[4] With the proposed changes, CBO estimates those costs would increase to about $665 and $1,600, respectively.

Likewise, out-of-pocket costs for those retiree households who currently use TRICARE Standard/Extra would increase under the new TRICARE Choice benefit. That population currently comprises about 450,000 households. Under current law, CBO estimates that the average out-of-pocket costs for those who use TRICARE Standard/Extra only for themselves will be about $550 in 2018 and the average out-of-pocket costs for those whose family members also rely on TRICARE Standard/Extra will be about $1,600. Under TRICARE Choice those costs would increase gradually to about $960 per year and $2,300, respectively, by 2023 (in 2018 dollars).[5]

Certain retiree households would see their out-of-pocket costs decrease under the new benefit structure, especially those who are retired from the uniformed services because of disability, and their dependents—almost 100,000 households. Under the new TRICARE plans they would have the same out-of-pocket costs as active-duty family members. For those who enroll their families in TRICARE Prime, that would be about $800 less, on average, than what they currently pay over the course of a year. For those who would enroll their families in TRICARE Choice, CBO estimates their out-of-pocket costs would be reduced by about $400, on average.

The higher out-of-pocket costs that most retiree households would face would have several effects. First, because DoD would be allowed to collect and spend the higher enrollment fees without further appropriation, CBO estimates the higher fees would reduce the amount of annual appropriations needed for the Defense Health Program. The change to copayments also would affect the cost of the overall TRICARE benefit. Most directly, higher copayments would result in TRICARE paying a lower amount for each provider

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4. All of the out-of-pocket costs per household discussed in this estimate represent the total costs faced by a household that uses TRICARE as the primary payer for their health benefits. Costs would be less for those who have other insurance and rely on TRICARE only as a second payer. Those second-payer costs are taken into account for the estimated costs. Likewise, the out-of-pocket costs for a family would vary depending on the size of a family. In the discussion above, the typical family size for a retiree with dependents is just under three individuals, including the retiree or other head of household.

5. For those retiree households who choose to enroll in TRICARE Choice, the enrollment fees in 2018 would be $150 for those who enroll only themselves and $300 for those who enroll both themselves and their families. Those enrollment fees would increase each year until 2023, at which point the fee would be $450 for those who enroll only themselves, and $900 for families. For purposes of comparison, the discussion above assumes the enrollment fees have been fully phased in beginning in 2018. The estimated budgetary effects reflect the scheduled increases under the bill.

claim than is currently the case. In addition, studies have shown that an increase in cost sharing leads to a decrease in the usage of health care.[6]

Higher cost sharing also would cause some retiree households to stop using TRICARE altogether. Many younger military retirees start second careers after they leave the uniformed services and have other options for health insurance. We estimate that by 2021 about 20,000 retiree households would stop using TRICARE because of this proposal. While not large relative to the entire retiree population, their exit from the TRICARE benefit would result in significant savings. CBO estimates that under current law, a typical retiree household enrolled in TRICARE Prime as a "family" in 2018, and for whom TRICARE is their primary payer of health benefits, will cost DoD about $17,400, and a typical family that uses Standard/Extra will cost DoD about $12,700.[7] However, some of those who stop using TRICARE as the primary payer for their health care would migrate to other government-funded health care and those costs would partially offset the savings to DoD. Many retirees go on to work for the federal government and have access to the Federal Employees Health Benefits Program. Others would increase their reliance on the Veterans Health Administration and a small number would be eligible for Medicaid.

In total, CBO estimates that implementing section 701 would reduce DoD health care spending by about $2 billion over the 2018-2021 period. Those reductions include the increased costs to other federal programs that provide health care. In addition, DoD would incur costs for administrative tasks related to the changes, including rulemaking, changes to claim processing systems, and the need to notify and educate beneficiaries. CBO estimates those tasks would require additional appropriations of about $100 million in 2017, which is based on DoD's estimates of the costs of implementing similar TRICARE reform proposals.
Enacting section 701 also would affect mandatory spending; those effects are discussed below under the heading "Direct Spending and Revenues."

*TRICARE Pharmacy Benefit*. Section 702 would increase copayments for those who use

6. CBO consulted several studies on this subject, the most notable being Joseph P. Newhouse and others, *Free for All?: Lessons From the RAND Health Insurance Experiment* (Harvard University Press, 1996).

7. The large difference in cost between TRICARE Prime and Standard/Extra is somewhat misleading. A large part of the difference is because those who use Standard/Extra contribute larger cost shares, which creates both cost avoidance for DoD and more efficient usage of services. Additionally, beneficiaries enrolled in Prime receive a larger portion of their care from military treatment facilities. Recent studies indicate that military treatment facilities are run less efficiently than private facilities, and hence have larger costs per service. (For instance, see Philip M. Lurie, *Comparing the Costs of Military Treatment Facilities With Private-Sector Care* (Institute for Defense Analysis, February 2016.) However, if DoD is committed to operating a large direct care system, it is generally in the government's best interest, at least from a cost standpoint, to keep as much care at those facilities as possible to spread the significant overhead expense over more people.

either the TRICARE mail-order program or retail pharmacies beginning in 2017. This section also would allow DoD to discontinue coverage for certain drugs if a less expensive option is available. DoD is currently required to provide access to all drugs approved by the Food and Drug Administration. Pharmaceutical costs for active-duty members and all other beneficiaries who are not eligible for Medicare, and their dependents are paid from discretionary funds.

DoD currently spends about $4 billion each year from discretionary funds on prescription drugs. An increase in copayments would reduce DoD's payments to retail pharmacies and the mail-order program. In addition, CBO expects that the authority to discontinue coverage for certain drugs would cause beneficiaries to stop using more costly drugs in favor of those that are less costly, but have similar therapeutic effects. Based on information from DoD, CBO estimates that implementing section 702 would, on net, reduce DoD's discretionary pharmacy costs by about $640 million over the 2017-2021 period.

Section 702 also would increase pharmacy copayments for TRICARE beneficiaries who are eligible for Medicare. Pharmaceutical costs for those beneficiaries are paid from the DoD Medicare-Eligible Retiree Health Care Fund (MERHCF) and are treated as direct spending in the budget. While spending from the MERHCF is mandatory, the fund is credited with annual accrual payments that are part of DoD's budget and count against the caps on discretionary budget authority set by the BCA. Those accrual payments, made at the beginning of each fiscal year, represent DoD's future costs of providing health care for members currently serving in the military once they retire and are eligible for Medicare. CBO estimates that implementing section 702 would reduce accrual payments to the MERHCF by about $1.5 billion over the 2018-2021 period.[8]

Payments to the MERHCF are intra-governmental transactions and are offset one-for-one by receipts elsewhere in the budget. However, by effectively lowering accrual payments, the proposal would allow the Congress to lower discretionary appropriations to DoD without affecting DoD's current level of operations. Alternatively, the Congress could keep the appropriation at the higher level, thus allowing DoD to spend its discretionary appropriations on other things. CBO assumes that section 702 would not be enacted in time to affect the accrual payments for 2017. Details about the mandatory costs, as well as a more complete overview of section 702, are discussed below, under the heading "Direct Spending and Revenues."

8. The actual amount of the accrual payments are set by the DoD Office of the Actuary, and the actual decrease to the accrual payments because of section 702 would ultimately depend on that office's economic and policy assumptions.

*Private Insurance Pilot*. Section 707 would authorize DoD to carry out a pilot program to purchase commercial health insurance for members of the Selected Reserve and their dependents. Currently, members of the part-time Selected Reserve and their families can participate in TRICARE if they pay a premium equal to 28 percent of the government's cost of providing the benefit. That benefit is often referred to as TRICARE Reserve Select (TRS). Those electing to participate in the pilot program would forgo the regular TRS benefit and would instead choose from a variety of commercial insurance plans in a manner similar to the Federal Employees Health Benefits Program (FEHB). Those electing to participate in the pilot would pay 28 percent of the commercial insurance premium.

Currently, about 135,000 households participate in TRS. CBO estimates that about 10 percent of those households would choose to opt out of TRICARE and enroll in one of the new commercial plans. That estimate is based on the percentage of military retirees who are eligible for both FEHB and TRICARE and choose to use FEHB instead of TRICARE. In addition, CBO estimates about 12,000 reserve households that do not currently use TRICARE would opt to use the new commercial plans, because the new plans would probably have more robust provider networks and offer more options than TRICARE. That figure is based on an analysis of current TRICARE participation rates among part-time reservists and the number of reserve households whose access to the current TRICARE provider network is limited.

CBO estimates the cost to the government, net of premiums and cost sharing, of providing TRS will be about $5,400 per household in 2019, which is when CBO expects the pilot program would begin. Under current law, TRICARE payment rates to health care providers are similar to the rates paid by Medicare. TRICARE can pay those rates and maintain a sufficient provider network because TRICARE beneficiaries are concentrated in certain geographic areas, giving TRICARE significant market power in those areas. Based on recent studies that compare rates paid by Medicare to those paid by private health insurance, CBO estimates that the cost to the government of providing commercial health insurance to members of the selected reserve would average about 30 percent more than providing the same level of care through TRS.[9] Thus, providing that insurance would increase costs to DoD by about $1,600 per household for those who switch from TRS to the new benefit and about $7,000 per household for those who are not currently participating in TRS, but would participate in the pilot program.

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9. Recent data show that commercial insurance payments to physicians are about 25 percent higher than similar payments by Medicare, and that payments to hospitals are, on average, about 75 percent higher under commercial insurance plans. See Medicare Payment Advisory Commission, *Report to the Congress: Medicare Payment Policy* (March 2016), p. 94. Also see Thomas M. Selden and others, "The Growing Difference Between Public and Private Payment Rates for Inpatient Hospital Care," *Health Affairs*, vol. 34, no. 12 (December 2015), pp. 2147-2150.

Incorporating the effects of inflation, CBO estimates the new pilot program would cost DoD over $100 million per year. Costs would be lower in 2019, because CBO expects the pilot would not begin until the second quarter of that fiscal year. CBO estimates there also would be about $30 million in start-up costs over the 2017-2018 period, which is based on the start-up costs for the TRS benefit. In total, CBO estimates that implementing section 707 would cost about $340 million over the 2017-2021 period.

*New TRICARE Support Contracts*. Section 726 would require DoD to renegotiate and expand its medical support contracts. In total, CBO estimates that implementing this provision would cost $125 million over the 2018-2021 period.

Based on information from DoD, CBO estimates that enacting this section would require new competitions for two to four national TRICARE support contracts. When new TRICARE support contracts are awarded, the contractor often incurs transition costs. Those costs include changes to IT infrastructure, beneficiary outreach, and other administrative costs. Based on information from recent awards of TRICARE support contracts, CBO estimates the transition costs for each new award would average about $25 million per contract. After including the government's administrative costs, CBO estimates the cost of competing and awarding the new contracts would be about $100 million over the 2018-2021 period.

Section 726 also would require that any new support contracts improve the availability of provider networks in rural and remote locations. Currently, the TRICARE provider network reaches about 85 percent of the eligible population. Although increasing the reach of the network would improve access for beneficiaries, it also would increase costs to DoD, as more people would be able to receive TRICARE benefits. Based on recent data on TRICARE participation, CBO estimates that about 20,000 additional households would eventually participate if the TRICARE network was expanded. However, it would take a number of years for all of those households to make the switch to TRICARE.There also is some uncertainty in how DoD would interpret and enforce the specifications in section 726. Because of this, we estimate about 2,500 new households would enroll in TRICARE beginning in 2021, which is the soonest we expect the new support contracts and networks could be up and running. At an average cost per household of about $11,500, CBO estimates those new households would cost DoD about $25 million in 2021.

Section 726 also would require DoD to hold a continuous competition for medical support contracts to foster innovation, promote better access to beneficiaries, and lower costs to the government. While competition often improves service and lowers cost, the uncertainty associated with continuous competition could have a negative effect on bidding for TRICARE service contracts, especially if it fragments the TRICARE beneficiary population into multiple plans and support contracts. For instance, if service in a

TRICARE region becomes divided between multiple support contracts or insurance companies, each individual company would have more difficulty achieving the market power necessary to obtain price discounts from health care providers. Over time, this could cause DoD's costs for health care to increase. CBO does not estimate any budgetary effects for the provisions in section 726 related to continuous competition because any cost estimate would depend on how DoD interprets and implements the language.

Enacting section 726 also would affect direct spending; those effects are discussed belowunder the heading "Direct Spending and Revenues."

*Autism Demonstration Program*. Section 758 would require DoD to restore the rates previously paid to providers of applied behavior analysis (ABA) under the TRICARE Comprehensive Autism Care Demonstration program. DoD recently reduced the rates paid to ABA providers so that they are more closely aligned with rates paid to providers under state Medicaid programs. Prior to the rate reduction, CBO estimates that DoD was spending about $250 million per year on ABA therapy under the demonstration program and that the rate reduction will reduce that spending by about 15 percent, or about $40 million per year. Therefore, CBO estimates that restoring the higher rates would cost DoD about $40 million in each of fiscal years 2017 and 2018. The additional cost would only be about $10 million in 2019, because the demonstration program is currently scheduled to end in the first quarter of that year.

Enacting section 758 also would affect direct spending; those effects are discussed below under the heading "Direct Spending and Revenues."

*Reimbursements to States for Vaccinations*. Section 757 would expand DoD's ability to reimburse state governments for vaccines provided to TRICARE beneficiaries. In certain states, vaccines are purchased at the state level and then distributed to physicians, who then administer the vaccines. This is done to minimize waste of the vaccines and also to obtain better pricing through bulk purchases. The states pay for the vaccines largely through the use of per capita assessments on private insurance companies. Under current rules, TRICARE will only reimburse the states for vaccines if claims are filed for each vaccine administered to a TRICARE beneficiary, which is an administrative burden for the states. Based on information from 11 state governments that currently operate state-wide vaccine programs, CBO estimates that TRICARE beneficiaries annually receive over $12 million in unreimbursed vaccinations, which the states pay for out of their general funds.

Section 757 would authorize DoD to pay the per capita assessments formulated by the states. DoD is currently nearing agreement with some of the states in question to make payments based on available claims data. Therefore, some states may start receiving reimbursements under current regulations. Because of this uncertainty going forward, CBO estimates the added cost to DoD under section 757 would be about half of the amount that currently goes unreimbursed. In total, CBO estimates that implementing this provision would cost about $34 million over the 2017-2021 period.

Enacting section 757 also would increase direct spending; those effects are discussed below under the heading "Direct Spending and Revenues."

*FEDVIP*. Section 703 would allow retirees of the uniformed services, and their dependents, to enroll in the Federal Employees Dental/Vision Program (FEDVIP). FEDVIP includes both dental insurance programs and vision insurance programs. Both are unsubsidized group benefits, with beneficiaries paying the entire cost of the premiums. Retirees of the uniformed services and their dependents can already participate in a group dental benefit through TRICARE, with the beneficiaries paying the entire cost of the premiums, so allowing beneficiaries to switch from the TRICARE dental benefit to FEDVIP would have a negligible effect on federal spending.

However, retirees and their dependents do get some limited vision benefits through TRICARE; thus, if any of them choose to enroll in FEDVIP it would reduce spending for the TRICARE health benefit. TRICARE currently spends over $50 million per year on vision benefits for beneficiaries who are not eligible for Medicare. Currently, 23 percent of federal employees and annuitants participate in the vision benefit portion of the FEDVIP program. CBO estimates the participation rate of military retirees and their dependents would be about half that amount or 12 percent, because they already have limited benefits through TRICARE.

In total, CBO estimates this provision would reduce health care costs by about $5 million per year. However, because it would take several years for beneficiaries to learn about the program and enroll, the savings would only total $14 million over the 2018-2021 period. Enacting section 703 also would reduce direct spending; those effects are discussed below under the heading "Direct Spending and Revenues."

*Restructuring of the Direct Care System*. Several sections in title VII would require the Department of Defense to realign and refocus the direct care system (those hospitals and clinics owned and operated by DoD) so that it only provides care directly related to the mission and overall readiness of the armed forces. All other care would be provided by outside providers and paid for by TRICARE. In particular, the provisions would do the following:

- Section 725 would give DoD the authority to realign the infrastructure and services offered at military treatment facilities.

- Section 729 would require DoD to concentrate certain specialty care at centers of excellence. If a beneficiary could not access the center of excellence, then they would receive specialty care from private providers.

- Section 735 would require DoD to limit the services provided at military treatment facilities to those that are directly related to military readiness.

- Sections 736 and 737 would require the transfer of certain services from military treatment facilities to civilian providers.

Section 752 would require DoD to eliminate positions for graduate medical education that do not support the readiness of the armed forces.

Whether those provisions result in budgetary costs or savings would depend on how DoD defines readiness and carries out the realignment of the direct care system to match that definition. The term “readiness” is broad and not well defined. At its most basic level, it encompasses all care needed to prepare and support personnel on deployments. However, military deployments and contingency operations can have a wide range of purposes and goals. A small-scale special-forces deployment may only require the skill set of a combat medic, whereas a large humanitarian operation might require medical personnel with a wide range of skills including infectious diseases, pediatrics, and maternity care.

Once DoD determines the kinds of care it would provide through the direct care system, it would incur costs or savings depending on how successful the department is in modifying the footprint of the direct care system to match the new level of care. Recent studies suggest that medical care provided through DoD’s treatment facilities and clinics is more expensive than providing similar levels of care through private providers (see footnote 7). However, because of the large overhead costs associated with constructing and operating medical facilities, moving care from the military treatment facilities to private-providers would not result in budgetary savings unless DoD closes military medical facilities or significantly reduces their capacity for accepting patients. If DoD moves care to private providers without downsizing the capacity of the direct care system, they effectively would be paying twice for the same level of care, and the cost to the department of providing health care would increase substantially.

**Other Provisions.**

*Multiyear Procurement Contracts.* The bill would authorize the Army to enter multiyear procurement contracts for two major acquisition programs. Multiyear procurement is a special contracting method authorized in current law (title 10, United States Code, section 2306b) that permits the government to enter into contracts covering acquisitions for more than one year but not more than five years, even though the total funds required for all years are not appropriated at the time the contracts are awarded.

- Section 112 would authorize the Army to pursue a multiyear contract beginning in fiscal year 2017 to acquire H-60M helicopters. The H-60M is a medium-lift helicopter that is used to transport military personnel and supplies. On the basis of information from the Army, CBO estimates that the service would buy 268 helicopters over the 2017-2021 period at a cost of $4.8 billion. (The Army estimates that a single multiyear contract would cost $455 million less than five annual contracts.)

- Section 113 would authorize the Army to use that authority to enter a multiyear contract beginning in fiscal year 2017 to purchase new and remanufactured AH-64E Apache helicopters. The AH-64E is a heavy attack helicopter capable of firing missiles and other munitions. On the basis of information from the Army, CBO estimates that under such a contract, the service would buy 275 of those helicopters over the 2017-2021 period at a cost of $4.5 billion. (The service estimates that a single multiyear contract would cost $426 million less than five annual contracts.)

*Construction of LHA-8 Ship.* Section 121 would allow the Navy to enter into a contract, beginning in fiscal year 2017, to construct the third Freedom class amphibious assault ship (designated LHA-8). The bill also would allow the Navy to use incremental funding for construction of the LHA-8. Currently, the lead ship of the class, the LHA-6, is in service and the second ship (LHA-7) is scheduled for delivery in 2019. On the basis of information provided by the Navy, CBO estimates that the LHA-8 ship would cost about $3.8 billion. The Congress already appropriated about $500 million for items that need a long lead time. Thus, CBO estimates that implementing section 121 would cost an additional $3.3 billion over the 2017-2018 period.

*Share-in-Savings Contracts.* Section 829A would allow the Department of Defense, the Department of Homeland Security (DHS), and the National Aeronautics and Space Administration (NASA) to enter into share-in-savings contracts to acquire new or upgraded information technology systems. Those agencies were previously authorized to use that authority for a maximum of 15 contracts during the 2002-2005 period. However, the authority was never used; it expired before the Administration finalized the rules and regulations governing its use. Under this provision, the contracts would be limited to a maximum term of 10 years. As discussed below under the heading "Direct Spending and Revenues," CBO estimates that implementing such contracts would affect direct spending as well as spending subject to appropriation.

Share-in-savings contracts are a type of performance-based contract through which a nonfederal entity provides the financing to design, acquire, and install equipment or systems on behalf of a federal agency and is paid by that agency over a period of years out of future appropriations. Such contracts are intended to improve the efficiency of an existing process or to accelerate implementation of a new program or process, without the agency needing to seek appropriations in advance for that purpose.

The amount of annual payments under the share-in-savings contracts would be based on the estimated operational savings that could be realized from using the new system. Under the administration's current budgeting practices, the agency's payments would be recorded as discretionary spending over the term of the contract, even though the agency would agree up front to pay for the system. In CBO's view, the authority to enter contractually binding agreements to make payments in future years is a form of direct spending. If those agencies recorded the obligation to pay for the cost of the systems when they were acquired, as CBO believes is appropriate, discretionary spending would be reduced in subsequent years.

On the basis of data regarding expenditures for IT systems, CBO estimates that the affected agencies will spend about $40 billion a year on information technology. CBO expects that if section 829A is enacted, a small percentage of those expenditures would be made through share-in-savings contracts.

CBO analyzed the use of other performance contracts to estimate the effect of reauthorizing share-in-savings contracts. Energy savings performance contracts (ESPCs) are another type of performance contract that agencies use regularly to acquire energy conservation measures and renewable energy systems. Those contracts account for about a third of DoD's expenditures on such equipment. However, CBO believes that share-in-savings contracts would not be used to as great an extent for IT systems for the following reasons:

- It is more difficult to estimate the costs to operate current IT systems than the costs to use equipment and facilities that consume energy;

- Similarly, it is more difficult to estimate and demonstrate operational savings for IT systems because they usually lack easily measured inputs or outputs such as units of energy consumed; and

- Share-in-savings contracts are limited to shorter terms than are ESPCs so annual savings required to pay for the cost of the IT systems that are acquired must be greater.

During the three-year pilot program for share-in-savings, agencies conducted 219 business case analyses for potential projects. Those analyses identified 15 candidate projects—or 7 percent of the projects that were evaluated. CBO expects that, had the agencies attempted to enter into such contracts for all those projects, some would have been unsuccessful. On that basis and for the reasons described above, CBO expects that DoD, DHS, and NASA would acquire 5 percent of their annual IT purchases through share-in-savings contracts.

CBO expects that it would take the administration about a year to review, revise, and finalize the policies and regulations for share-in-savings contracts that were developed earlier during the now expired pilot authority. Further, initial use of the authority would be limited by the availability of trained contracting personnel. As agencies and industry became more familiar with such contracts over time, usage would grow over time as it has in the case of ESPCs. Share-in-savings contracts would account for less than 1 percent of the affected agencies' IT contracts in 2018, and grow to 5 percent of IT purchases by 2026, CBO estimates.

In total, CBO estimates that agencies would initiate contracts for about $10.8 billion worth of IT systems via share-in-savings contracts over the next 10 years. If those agencies recorded the obligation to pay for the cost of the systems when they are acquired, as CBO believes is appropriate, discretionary costs would be reduced by $2.2 billion over the 2018-2021 period and by $10.8 billion over the 2018-2026 period, CBO estimates. (However, because the payments are made over the multiyear term of the contract, many of the annual payments that would be made under agencies' current budgeting practices would occur after 2026. Thus, forgone annual payments would reduce discretionary outlays by $270 million over the 2018-2021 period and by $3.5 billion over the 2018-2026 period, CBO estimates.)

*Boards for Correction of Military Records.* The Boards for Correction of Military/Naval Records (BCMRs) hear appeals from current and former military members regarding decisions that affect members' careers (eligibility for promotion or training, disciplinary actions and similar issues) or the characterization of their separation from the service (honorable versus less than honorable). The boards are authorized to modify such decisions and to amend the member's military records. The BCMRs receive nearly 40,000 applications per year, about half of which receive a board decision. The remaining applications are administratively closed by the BCMR staff, largely because they lack the necessary information for the boards to consider or because they are seeking board reconsideration without providing new information that is material to their appeals.

Section 963 would require the BCMRs to help applicants acquire the information necessary for the boards to make a decision. Additionally, it would require the boards to reconsider any case if the applicant presented new information, regardless of materiality. Finally, section 963 would require DoD to implement an ongoing training program in administrative law for board members.

Based on information from DoD, CBO expects that under this provision the boards would begin considering thousands of the cases that are administratively closed each year under current law. Because the boards would help petitioners gather the needed records, CBO estimates that about 3,000 of those cases would contain new information that could potentially affect applicants' eligibility for benefits. CBO anticipates that the boards would decide in the applicants' favor about 2 percent of the time, similar to the current rate for general applications to upgrade a member's discharge status. (BCMRs have additional policies to handle applications to upgrade a member's discharge related to Post Traumatic Stress Disorder or Don't Ask Don't Tell. Those applications result in upgrades much more frequently under current law, but are less likely to be affected by the new requirements imposed by section 963.)

To accommodate that workload increase, CBO estimates that BCMRs would have to hire about 100 additional staff members and about 100 additional board members—those increases represent a doubling of the current staff levels and a 50 percent increase in the number of board members. Hiring those employees and satisfying the training requirements required by section 963 would cost $180 million over the 2017-2021 period, CBO estimates.

In addition to the changes in spending subject to appropriation, some members whose records are upgraded by the boards would become eligible for additional benefits. On the basis of information from DoD, CBO expects that in most cases, such people would be granted retroactive eligibility for separation pay that was denied them when they left the service. Those costs are discussed below in the "direct spending" section of this estimate.

*Small Business Programs.* Section 874 of the bill would permanently authorize the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs for the Department of Defense, which are set to expire at the end of fiscal year 2017. Those programs require DoD to set aside a certain percentage of its extramural budgets for research and development (R&D), for contracts with small businesses (for the SBIR program), and cooperative research between small businesses and a federal laboratory or nonprofit institution (the STTR program). Extramural budgets consist of expenditures for grants and contracts to outside institutions.

The cost of those programs to DoD consists primarily of personnel and associated overhead expenses to solicit applications, prepare reports, and track outcomes. Under current law, DoD may use up to 3 percent of the R&D funds required to be set aside for the SBIR program to cover administrative and other related costs to run the programs. However, that authority also expires at the end of fiscal year 2017 and would not be extended under S. 2943. On the basis of information from DoD, CBO estimates that implementing section 874 would cost $134 million in administrative costs over the 2018-2021 period to run the SBIR and STTR programs.

*Athletic Shoes*. Section 671 would require DoD to issue American-made athletic shoes to enlisted personnel arriving for initial training. The military services do not currently provide such shoes to recruits; new enlistees furnish their own running shoes and some of the military services offer a cash allowance to defray the expense at a cost of $17 million annually. Under section 671, the military would have to stock such footwear for issue to recruits.

DoD brings in approximately 200,000 recruits for initial training each year. In the first year the department would need to buy a pair for each recruit, back-up inventory to prevent shortages, and some additional quantities to ensure it had enough shoes in the proper size and model to outfit each recruit. On the basis of information from the department, CBO expects that DoD would acquire 400,000 pairs of shoes in 2017. Thereafter, the department would need to buy about 250,000 pairs annually to outfit new recruits, to replace shortages in particular sizes and models, and to replace inventory that has been damaged, degraded, or lost.

DoD reports that it would spend $95 a pair to satisfy the domestic-sourcing requirement. After accounting for the savings from discontinuing the cash allowance, requiring DoD to issue American-made shoes at boot camp would cost $50 million over the 2017-2021 period. If the agency was able to negotiate a better price, the cost would be lower.

*Female Registration for Selective Service.* Under current law, male citizens and certain other men who are residing in the United States and who are between the ages of 18 and 26, must register with the Selective Service System (SSS). Section 591 would require women who meet the age and other registration requirements to register for the SSS, making them eligible for a military draft. Men who fail to register lose eligibility for some federal benefits, including student financial aid. Under section 591, those limits on eligibility for certain federal benefits also would apply to women who turn age 18 on or after January 1, 2018.

Because individuals who have not met their obligation to register with the selective service are prohibited from receiving federal student aid, CBO projects that implementing the bill would reduce eligibility for Pell grants. Under the bill, the requirement for registration only affects women who turn age 18 on or after January 1, 2018; therefore, CBO expects that no students would lose eligibility before July 1, 2018 (the start of the academic year). However, the number of women failing to register as required would increase over time (as more women come under the new requirement), though CBO expects that compliance with this new requirement also would increase over time.

Over time, the number of aid applicants over the age of 25 who were required to register but failed to do so would increase. (Those applicants would be unable to register after turning 26 and thus could be permanently prohibited from accessing federal student aid.) Thus, based on information about male aid applicants registering with the SSS, the number of women applying for federal student aid, and accounting for both the phase-in of the requirement to register and of knowledge and acceptance of that responsibility, CBO projects that the number of students who would no longer receive Pell grants under this provision would grow over time, from fewer than 500 in award year 2018-2019 to more than 8,000 by 2026-2027.

Federal funding for Pell grants is provided through both annual discretionary appropriations and direct spending authority. CBO estimates that enacting S. 2943 would reduce discretionary spending for Pell grants by $1 million over the 2018-2021 period. Because the Pell grant program is only authorized through fiscal year 2018, that estimate includes only the effect on discretionary spending for that year. Section 591 also would affect eligibility for the mandatory portion of the Pell grant program and student loans, both of which are treated as direct spending in the budget. More details about the effect of this provision on direct spending are provided below under the heading, “Direct Spending and Revenues.” (The $1 million reduction in discretionary spending for the Department of Education is included in the amounts shown in Table 1 for nondefense estimated authorizations under the heading nondefense estimated authorizations.)

Those reduced discretionary costs would be offset by higher costs of doing business for SSS. To meet the new requirement of registering women, SSS would need to hire additional personnel, increase office space and equipment, and publicize additional materials to make women aware of this new requirement. Because section 591 would establish a duty to register for women who attain the age of 18 years on or after January 1, 2018, CBO estimates that SSS would start to process female registrations in 2018.

Based on information from SSS, CBO expects the agency would begin to hire and train new personnel, and inform women of the new requirement to register in 2017. CBO estimates that section 591 would increase discretionary costs to SSS by $25 million over the 2017-2021 period. (Those discretionary costs are shown in Table 1 under defense estimated authorizations.)

*Limit Number of Senior Executive Service Employees*. Section 1112 would limit the number of DoD civilian employees who are in the Senior Executive Service (SES). The limit established in this section would be 75 percent of the number of covered SES employees as of December 31, 2015, and would take effect on January 1, 2019. On the basis of information from DoD, CBO estimates that DoD would need to reduce the number of SES employees by about 300 to meet that new limit.

DoD has several personnel authorities it could use to reach the proposed limit, including implementing a hiring freeze, offering voluntary separation incentive payments, and offering voluntary early retirement benefits. On the basis of information from the Office of Personnel Management, CBO estimates that DoD could achieve the full amount of the required reduction by the due date through attrition if it implemented a hiring freeze. However, DoD could choose to continue hiring at reduced levels during this draw down period, and encourage additional employees to separate earlier than they otherwise would through offering some combination of VSIP and early retirement.

If DoD implemented section 1112 by paying additional VSIP to achieve some of the reduction, those payments would increase discretionary costs. On the basis of information from DoD, CBO expects that DoD would convert many of the positions held by SES employees to high-level, GS 15 positions. Because pay levels for lower-level SES employees and GS 15 employees have a significant overlap, compensation for those positions might not change significantly. If DoD used voluntary early retirement authority, the increased number of retirees would increase direct spending. Because CBO does not know how DoD would implement the reduction in the number of SES employees, CBO cannot estimate the effects of section 1112.

**Direct Spending and Revenues**

Several provisions in S. 2943 would affect direct spending, which CBO estimates would increase by $10.9 billion over the 2017-2026 period (see Table 4). In addition, changes that would be made to the Uniform Code of Military Justice would have an insignificant effect on revenues.

**TABLE 4. ESTIMATED EFFECTS OF S. 2943 ON DIRECT SPENDING AND REVENUES**

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2017-2021 | 2017-2026 |
| Share-in-Savings Contracts | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 200 | 400 | 700 | 900 | 1,200 | 1,400 | 1,700 | 2,000 | 2,300 | 2,200 | 10,800 |
| Estimated Outlays | 0 | 150 | 350 | 625 | 850 | 1,125 | 1,350 | 1,625 | 1,925 | 2,225 | 1,975 | 10,225 |
| TRICARE Pharmacy Benefit | | | | | | | | | | | | |
| Estimated Budget Authority | -53 | -121 | -158 | -351 | -437 | -483 | -283 | -242 | -294 | -319 | -1,120 | -2,741 |
| Estimated Outlays | -43 | -107 | -151 | -313 | -419 | -474 | -324 | -250 | -284 | -314 | -1,033 | -2,679 |
| TRICARE Cost Sharing | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | -3 | -4 | -4 | -5 | -5 | -6 | -5 | -5 | -6 | -16 | -43 |
| Estimated Outlays | 0 | -3 | -4 | -4 | -5 | -5 | -6 | -5 | -5 | -6 | -16 | -43 |
| FEDVIP | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | -1 | -1 | -1 | -2 | -2 | -3 | -3 | -4 | -4 | -5 | -21 |
| Estimated Outlays | 0 | -1 | -1 | -1 | -2 | -2 | -3 | -3 | -4 | -4 | -5 | -21 |
| Other Changes to TRICARE | | | | | | | | | | | | |
| Estimated Budget Authority | * | 1 | * | * | * | 1 | 2 | 2 | 3 | 3 | 1 | 13 |
| Estimated Outlays | * | 1 | * | * | * | 1 | 2 | 2 | 3 | 3 | 1 | 13 |
| Special Survivor Indemnity Allowance | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 240 | 240 | 240 | 240 | 240 | 250 | 250 | 250 | 250 | 960 | 2,200 |
| Estimated Outlays | 0 | 220 | 240 | 240 | 240 | 240 | 250 | 250 | 250 | 250 | 940 | 2,180 |
| Combat Related Special Compensation | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | -1 | -3 | -6 | -8 | -11 | -14 | -17 | -20 | -23 | -18 | -103 |
| Estimated Outlays | 0 | -1 | -3 | -5 | -8 | -12 | -14 | -16 | -20 | -23 | -17 | -102 |
| Survivor Benefit Plan Premiums | | | | | | | | | | | | |
| Estimated Budget Authority | -4 | -4 | -4 | -4 | -4 | -2 | -2 | -2 | -2 | -2 | -20 | -30 |
| Estimated Outlays | -4 | -4 | -4 | -4 | -4 | -2 | -2 | -2 | -2 | -2 | -20 | -30 |
| Temporary Disability Retirement List | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 0 | 0 | -1 | -1 | -1 | -1 | -1 | -2 | -2 | -2 | -9 |
| Estimated Outlays | 0 | 0 | 0 | -1 | -1 | -1 | -1 | -1 | -2 | -2 | -2 | -9 |
| Senior Military Acquisition Advisors | | | | | | | | | | | | |
| Estimated Budget Authority | * | * | * | * | -1 | -1 | -1 | -1 | -1 | -1 | -2 | -6 |
| Estimated Outlays | * | * | * | * | -1 | -1 | -1 | -1 | -1 | -1 | -2 | -6 |
| Boards for Correction of Military Records | | | | | | | | | | | | |
| Estimated Budget Authority | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 5 | 10 |
| Estimated Outlays | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 5 | 10 |
| Security Cooperation Enhancement Fund | | | | | | | | | | | | |
| Estimated Budget Authority | 1,100 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,200 | 1,200 |
| Estimated Outlays | 220 | 350 | 305 | 190 | 70 | 38 | 14 | 1 | * | * | 1,135 | 1,188 |

(Continued)

**TABLE 4. CONTINUED**

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2017-2021 | 2017-2026 |
| Improvements at Government Facilities | | | | | | | | | | | | |
| Estimated Budget Authority | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 75 | 150 |
| Estimated Outlays | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 75 | 150 |
| Extending the Availability of Appropriations for Stability Activities in Pakistan | | | | | | | | | | | | |
| Estimated Budget Authority | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 100 | 100 |
| Estimated Outlays | 65 | 30 | 3 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 98 | 98 |
| National Defense Stockpile | | | | | | | | | | | | |
| Estimated Budget Authority | 2 | 2 | 2 | 2 | 2 | -19 | -19 | -19 | -19 | -19 | 10 | -85 |
| Estimated Outlays | 2 | 2 | 2 | 2 | 2 | -19 | -19 | -19 | -19 | -19 | 10 | -85 |
| Working Capital Fund for Precision Guided Munitions | | | | | | | | | | | | |
| Estimated Budget Authority | 25 | 25 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 50 | 50 |
| Estimated Outlays | 3 | 11 | 18 | 14 | 4 | 0 | 0 | 0 | 0 | 0 | 50 | 50 |
| Female Registration for Selective Service | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | * | -1 | -2 | -3 | -4 | -5 | -5 | -6 | -7 | -6 | -34 |
| Estimated Outlays | 0 | * | * | -1 | -2 | -3 | -4 | -5 | -5 | -6 | -4 | -29 |
| Civilian Sabbaticals | | | | | | | | | | | | |
| Estimated Budget Authority | * | * | * | * | * | * | * | 0 | 0 | 0 | 1 | 1 |
| Estimated | * | * | * | * | * | * | * | 0 | 0 | 0 | 1 | 1 |
| Medals of Honor | | | | | | | | | | | | |
| Estimated Budget Authority | 1 | * | * | * | * | * | * | * | * | * | 1 | 1 |
| Estimated Outlays | 1 | * | * | * | * | * | * | * | * | * | 1 | 1 |
| Total Changes in Direct Spending | | | | | | | | | | | | |
| Estimated Budget Authority | 1,187 | 454 | 487 | 589 | 697 | 929 | 1,334 | 1,673 | 1,916 | 2,186 | 3,414 | 11,453 |
| Estimated Outlays | 260 | 664 | 771 | 759 | 740 | 901 | 1,258 | 1,592 | 1,852 | 2,117 | 3,192 | 10,912 |

Notes: Division E, section 546, and section 547 would make several changes to the Uniformed Code of Military Justice that would increase revenues by less than $500,000 over the 2017-2026 period.

Numbers may not add up to totals because of rounding; * = between -$500,000 and $500,000.

**Share-in-Savings Contracts**. As discussed in the section on spending subject to appropriation, section 829A would reauthorize the use of share-in-savings contracts by DoD, DHS, and NASA.

When a federal agency enters into a share-in-savings contract, it promises to make a series of payments to a private contractor over as many as 10 years to cover the costs of the equipment and services acquired through the contract. Under the agencies' current budget practices, those payments come from annual appropriations and are recorded as discretionary outlays over the duration of the contract. The outlays for payments to the vendor are offset, at least in part, by lower outlays associated with whatever annual savings the investment produces.

In CBO's judgment, however, when an agency enters into such contracts, it makes an obligation on behalf of the government—a commitment of government resources—for the full costs of the IT system to be acquired, but without the appropriations needed to pay those costs. In CBO's view, therefore, legislation authorizing share-in-savings contracts creates the authority to make such obligations and, in the absence of appropriations sufficient to cover the contractual costs, that authority is a form of mandatory rather than discretionary spending. (Share-in-savings contracts are similar to energy savings performance contracts, an extensively used vehicle that CBO also believes should be treated as direct spending.) [10]

On the basis of data regarding expenditures for IT systems, CBO estimates that the covered agencies will acquire about $40 billion a year of such systems. As discussed in the section on spending subject to appropriation, CBO expects that share-in-savings contracts would be used to purchase about 1 percent of those systems in 2018, increasing to about 5 percent by 2026. If the commitment to pay for those IT systems were recorded when the share-in-savings contracts were initiated and the obligation is made, direct spending would increase by $10.2 billion over the 10-year period, CBO estimates.

**TRICARE Pharmacy Benefit.** By modifying the pharmacy benefit, enacting section 702 would reduce net health care spending for TRICARE beneficiaries who are eligible for Medicare by $2.7 billion over the 2017-2026 period. Pharmacy spending for those beneficiaries is paid from the DoD Medicare-Eligible Retiree Health Care Fund, a mandatory account. Spending on pharmancy benefits for all other beneficiaries of the Military Health System is discretionary, and is discussed above under the heading "Spending Subject to Appropriation."

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10. For additional information on why energy savings performance contracts (ESPCs) affect direct spending, see Congressional Budget Office, *Using ESPCs to Finance Federal Investments in Energy-Efficient Equipment*, (February 2015), https://www.cbo.gov/publication/49869

Section 702 would make the following changes to the TRICARE pharmacy benefit.

- The copayment for generic medications would gradually increase over the 2017-2025 period to $14 for both a 30-day supply from retail pharmacies and up to a 90-day supply from the TRICARE national mail-order pharmacy (TMOP). Copayments for generic medications are currently $10 for drugs purchased through the retail network; there is no copayment for generics if they are purchased through the TMOP.

- Copayments for brand-name drugs in the TRICARE formulary would gradually increase to $45 by 2025 for both a 30-day supply from retail pharmacies and up to a 90-day supply from the TMOP. Copayments for those medications are currently $24 for drugs purchased through the retail network and $20 for drugs purchased from the TMOP.

- Copayments for nonformulary drugs would increase from $49 to $90 by 2025.

- Service members who are retired for medical reasons, spouses of members who die on active duty, and the family members of both of those groups would be exempt from any increases in copayments. Pharmacy copayments for those beneficiaries would remain at 2016 levels indefinitely.

- DoD would have the authority to discontinue coverage for certain drugs if they are determined to have little or no value.

Prescription medications obtained at military treatment facilities would continue to be offered at no charge and DoD would maintain authority to increase the pharmacy copayments after 2025 to reflect inflation in pharmacy ingredient and dispensing costs.

CBO estimates that the increased copayments discussed above would reduce direct spending for pharmacy benefits by about $2.8 billion over the 2017-2026 period. The largest part of the estimated savings—about two-thirds—would occur as a direct result of DoD having lower costs for each prescription that would have a higher copayment. In 2015, DoD paid for about 60 million prescriptions for TRICARE beneficiaries who were eligible for Medicare at a cost of more than $4 billion. Under current law, the rate of growth in TRICARE pharmacy copayments for fiscal years through 2022 is limited to the annual cost-of-living adjustment for military retired pay, which CBO projects will be about 2 percent each year. After 2022, current law gives DoD the authority to increase the pharmacy copayments as it deems appropriate. CBO estimates there is about a 50 percent probability that the higher copayments authorized by the bill would occur after 2022 under current law, which accounts for the lower savings attributed to section 702 beginning in 2023.

Various studies have shown that higher copayments lead to lower use of prescription drugs.[11] CBO estimates this lower demand accounts for the other third of the $2.8 billion in savings. However, changes in prescription drug use can also affect the use of inpatient and outpatient medical services.[12] Thus, even though the higher copayments may deter some beneficiaries from filling prescriptions they no longer need or use, those higher copayments also could cause some chronically ill beneficiaries to stop taking their medications, resulting in more doctor visits and hospitalizations. As a result, CBO estimates that the $2.8 billion in direct pharmacy savings would be offset by a $0.4 billion increase in other federal spending for medical services (mostly from Medicare).

In addition to increasing the copayments, section 702 would give DoD the authority to discontinue paying for certain drugs if they are determined to have little or no value. Current law requires DoD to cover the cost (subject to copayments) of all drugs approved by the Food and Drug Administration. Because of this, DoD is required to pay for costly prescription drugs even if another drug provides similar therapeutic value at a lower cost. It is not clear how DoD would use this authority, but it has the potential to produce significant savings.

To estimate the savings from this proposal, CBO examined a list of drugs currently excluded from the formularies of commercial insurance plans. DoD currently spends about $75 million per year to provide those same drugs to Medicare-eligible beneficiaries. If DoD discontinued coverage for those drugs and beneficiaries and instead used less expensive substitutes, CBO estimates the department could reduce that spending by as much as $50 million per year. However, because how DoD would ultimately use this authority is unclear, we estimate the annual savings would be only half that amount (or, $25 million per year) and would total $0.3 billion over the 2017-2026 period.

**TRICARE Cost Sharing**. Beginning in fiscal year 2018, section 701 would make several changes to the TRICARE health benefit, including higher enrollment fees and copayments for retirees and their families. Health benefits for retirees of the other uniformed services (Coast Guard, National Oceanic and Atmospheric Administration, and Public Health Service) and their family members are paid from mandatory appropriations, so any change to their benefits would affect direct spending. CBO estimates that because of those

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11. Based on a review of various studies, CBO measured changes in demand using a price arc-elasticity of demand that ranged from -.05 to -.15 depending on the type of drug, point of service, and current copayment level.

12. For more information, see Congressional Budget Office, *Offsetting Effects of Prescription Drug Use on Medicare's Spending for Medical Services* (November 2012).

changes, government spending on health care for those beneficiaries would be reduced by almost $150 million over the 2018-2026 period. However, those savings would be partially offset by the costs associated with beneficiaries of DoD and the other uniformed services leaving TRICARE and using other mandatory federal health programs, including FEHB and Medicaid. On net, CBO estimates enacting section 701 would reduce mandatory spending by $43 million over the 2018-2026 period.

Implementing section 701 also would affect discretionary spending. Details of those effects, as well as additional details about the estimates in general, are discussed above, under the heading "Spending Subject to Appropriation."

**FEDVIP**. As discussed above under the heading "Spending Subject to Appropriation," section 703 would allow retirees of the uniformed services, and their dependents, to enroll in the Federal Employees Dental/Vision Program. TRICARE currently spends about $25 million per year on vision benefits for beneficiaries who are Medicare-eligible (spending for those beneficiaries is direct spending). On the same basis as our estimate for the discretionary effects, CBO estimates that enacting this provision would reduce mandatory spending by about $3 million per year. However, because it would take several years for beneficiaries to learn about the program and enroll, the savings would only be $21 million over the 2018-2026 period.

**Other Changes to TRICARE**. Three sections in S. 2943, in addition to having significant effects on spending subject to appropriation, also would increase direct spending by $13 million, primarily because they would affect TRICARE benefits for retirees of the other uniformed services and their dependents; spending for those retirees, whether or not they are eligible for Medicare,is considered direct spending. In particular:

- Section 726 would require DoD to conduct a new competition for medical support contracts and improve the availability of provider networks in rural and remote locations, which CBO estimates would increase direct spending by $11 million over the 2021-2026 period.

- Section 757 would expand DoD's ability to reimburse state governments for vaccines provided to TRICARE beneficiaries, which CBO estimates would increase direct spending by about $1 million over the 2017-2026 period.

- Section 758 would require DoD to restore the rates previously paid to providers of applied behavior analysis under the TRICARE Comprehensive Autism Care Demonstration program, which CBO estimates would increase direct spending by $1 million over the 2017-2019 period.

Those sections also would affect spending subject to appropriations. CBO's estimates of those costs, as well as additional details about the estimates, are discussed above under the heading "Spending Subject to Appropriation."

**Special Survivor Indemnity Allowance.** Surviving spouses who receive both an annuity as a beneficiary of the Survivor Benefit Plan (SBP) as well as Dependency and Indemnity Compensation (DIC) from the Department of Veterans' Affairs have their SBP payments reduced by the amount of DIC. The Special Survivor Indemnity Allowance (SSIA) is a payment made to such surviving spouses to offset, at least in part, that reduction. SSIA is limited to the lesser of $310 or the amount of the SBP reduction. The authority for SSIA is set to expire at the end of fiscal year 2017. Section 643 would permanently extend it.

Based on information from the Statistical Report of the Military Retirement System, CBO expects that nearly 65,000 surviving spouses would receive the SSIA in fiscal year 2018. CBO estimates that section 643 would increase direct spending for SSIA by $2.2 billion over the 2018-2026 period.

**Combat-Related Special Compensation.** Military retirees who also receive disability compensation from the Department of Veterans Affairs for a disability that is rated at less than 50 percent have their military pension reduced by the amount of that compensation. Combat-Related Special Compensation (CRSC) restores the military pension for the portion of the disability that DoD determines is combat related—but only up to the amount of the pension the retiree would have earned based on the number of years of service. The National Defense Authorization Act for Fiscal Year 2016 established a new retirement system that begins in 2018. The new system reduces by 20 percent the multiplier for calculating retirement pay based on years of service. Section 634 would amend the formula that caps CRSC pay to include the effect of that upcoming reduction in the retirement multiplier for those service members who qualify for a disability retirement under the new system.

Based on information from the Office of the Chief Actuary at the Department of Defense, CBO expects that each year about 1,500 to 2,000 new retirees would have their CRSC reduced under section 634. The amount by which monthly benefits would be reduced ranges from less than $100 for new retirees with few years of service to nearly $500 for new retirees with almost 20 years of service. (CBO does not expect retirees with 20 years of service or more to be affected by this provision.) On that basis, CBO estimates that section 634 would reduce direct spending for CRSC payments by $102 million over the 2018-2026 period.

**Survivor Benefit Plan Premiums.** Military retirees who choose to participate in the Survivor Benefit Plan (SBP) typically have their premiums automatically withheld from their monthly retirement pay. However, some retirees also receive veterans' disability compensation that offsets most or all of their retirement pay. Those retirees who do not have enough retirement pay to cover their SBP premiums are required to remit the premium payments to DoD each month.

If a retiree incurs a debt by not paying in full and on time, DoD will recover that debt either by encouraging the retiree to repay the amount of the debt over time or by withholding the amount of the debt from the survivor payments made after the retiree's death. Section 644 would allow DoD to withhold monthly SBP premium payments from Combat Related Special Compensation. Because CRSC is considered disability compensation rather than retirement pay, it cannot currently be used to cover SBP premiums.

Based on information from DoD, CBO expects that enacting section 644 would affect several thousand retirees who receive CRSC and participate in SBP, but whose retired pay is inadequate to fully pay their SBP premiums. Under that provision, some of those retirees would never incur a debt, while others would pay off the debt more quickly. In both cases, section 644 would accelerate some SBP premium payments or debt repayments from beyond 2026 into the 2017-2026 budget window. CBO estimates that those accelerated payments would reduce direct spending by $30 million over the 2017-2026 period.

**Temporary Disability Retirement List.** Service members with disabilities that are not considered permanent and stable are placed on the Temporary Disability Retirement List (TDRL) for a period of up to five years. While on the TDRL, the service members receive periodic medical examinations to determine whether their disability has stabilized. When service members leave the TDRL, most are placed on the permanent disability retirement list; some are separated from the service (with or without separation pay); very few return to active duty. About two-thirds of service members who are placed on the TDRL leave it within three years. Retirement pay for those on the TDRL is calculated based on the member's disability rating—as it is for permanent disability retirees—but TDRL payments cannot be lower than 50 percent of the member's salary.

For members of the armed forces whose names are placed on the TDRL on or after January 1, 2017, section 534 would reduce the maximum period a service member could spend on the list from five years to three years. That would accelerate the time at which some service members began to receive reduced disability benefits as permanent disability retirees, and other service members were separated from the military and ceased receiving disability benefits. Based on data from DoD and its Office of the Chief Actuary, CBO expects that a little over 1,000 service members would stop receiving temporary disability retirement pay each year under section 534. About 20 percent would receive reduced retirement pay, and another 5 percent would lose their retirement pay. On that basis, CBO estimates that section 534 would reduce direct spending for disability retirement pay by $9 million over the 2020-2026 period.

**Senior Military Acquisition Advisors.** Section 592 would permit DoD to employ up to 15 colonels or Navy captains in the newly established position of Senior Military Acquisition Advisor. Those officers would have to have at least 30 years of service. They would be exempt from mandatory retirement rules related to their age or years of service and they would not count against the limitations on officer-grade endstrength.

CBO anticipates that DoD would establish all 15 authorized positions over a three-year period. The officers who would serve in those positions would retire up to five years later than they would have under current law, which would delay the onset of their retirement pay. Once those officers did retire, their annual pay would be higher than it would be under current law because of their additional years of service and higher final pay. CBO estimates that, on net, section 592 would reduce direct spending for retirement pay by $6 million over the 2017-2026 period.

**Boards for Correction of Military Records**. Section 963 would require Boards for Correction of Military/Naval Records to help applicants gather the information necessary for the boards to make a determination. Additionally, it would require the boards to reconsider any case if the applicant presented new information.

Some of the members whose records would be amended by the boards to reflect an upgraded discharge status would become eligible for additional benefits. On the basis of information from DoD, CBO expects that most of those people would become eligible for separation pay that they were denied when they left the service, based on the original characterization of their discharge. (For various reasons, relatively few would become eligible for disability compensation, military retirement, or education benefits under the G.I. Bill.) CBO estimates that each year about 60 former members would receive upgrades in discharge characterization that would result in awards of retroactive separation pay of roughly $17,000 on average. On that basis, CBO estimates that enacting section 963 would increase direct spending for retroactive separation pay by $10 million over the 2017-2026 period. (More information is provided above under the heading of “Spending Subject to Appropriation.”)

**Security Cooperation Enhancement Fund.** Section 1260 would create a Security Cooperation Enhancement Fund (the Fund) and would require the Secretary of Defense to transfer into the Fund, not later than October 1, 2017, all unobligated balances, including expired balances, from the following accounts: the Afghanistan Security Forces Fund, the Iraq Train and Equip Fund, and the Southeast Asia Maritime Security Initiative. Once transferred, those balances would be available for the same purposes, and subject to the same terms and conditions, as other amounts in the Fund. Section 1260 also would allow the Secretary of Defense to accept and spend contributions to the Fund from any person, foreign government, or international organization.

On the basis of information contained in DoD's financial statements, CBO estimates that DoD would transfer $1.1 billion in expired (but unobligated) balances from the aforementioned accounts into the Fund. Once transferred, those expired amounts would once again be available to incur new obligations—the transfer thus constitutes a reappropriation. On October 1, 2017, an additional $100 million in expired funds also would be reappropriated under this section. Under current law, expired balances are not available to incur new obligations. Expired funds may only be used to record, adjust, or liquidate existing obligations over the five-year period following expiration. At the end of that five-year period, any remaining balances are cancelled.

In total, enacting section 1260 would increase direct spending by about $1.2 billion over the 2017-2026 period, CBO estimates.

**Improvements at Government Facilities**. Section 2812 would allow contractors that are leasing military-owned industrial facilities to make capital improvements to those facilities. Ownership of such improvements would vest with the government when the improvement is completed. DoD would be authorized to pay for those improvements by reducing the rent it charges the lessee. It also could pay those costs over more than one year by allocating the expense to procurement contracts for the items produced at that facility. For example, the department would probably choose the latter option for new manufacturing facilities or extensive upgrades that are necessary for production of long-running procurement programs such as the F-35 Joint Strike Fighter.

The government would incur an obligation to pay for the upgrades to its facilities when the lessee completes them. If DoD is authorized to commit to make the payments over more than one year using future appropriations, the authority to accept such improvements before the appropriations are enacted represents contract authority, a form of mandatory budget authority. The authority to pay for such improvements over time would affect the budgetary treatment of some procurement costs—by converting what would otherwise be a discretionary cost into a mandatory obligation—but would not significantly increase the total costs of the planned contract. If the procurement plan was cancelled early, DoD would be obligated to make cancellation payments for any unrecovered costs of the facility enhancements.

On the basis of information from DoD, CBO expects that the department would use the authority to pay for three projects over the next 10 years at an average cost of $50 million per project. Thus, enacting section 2812 would increase direct spending by $150 million over the 2017-2026 period, CBO estimates. Because DoD could not provide specific plans regarding such use of that authority, CBO has uniformly allocated that total amount over the budget window.

**Extending the Availability of Appropriations for Stability Activities in Pakistan.** Section 1212 would extend by one year the availability of up to $100 million that was appropriated in fiscal year 2016 for Operation and Maintenance, Defense-Wide activities. Under current law, the portion of that amount that remained unobligated would expire on September 30, 2016, and would not be available to incur new obligations. Generally, operation and maintenance funding is available for obligation for only one year before expiring. Once expired, those funds may only be used to record, adjust, or liquidate existing obligations over a five-year period. At the end of that five-year period, any remaining balances are cancelled. Under section 1212, the amounts extended would be newly available in 2017—a reappropriation—to provide certain support to Pakistan. On the basis of information from DoD, CBO estimates that none of the $100 million will be obligated by September 30, 2016, and that the reappropriation of the entire amount would increase direct spending by $98 million over the 2017-2026 period.

**National Defense Stockpile**. Two provisions, sections 1411 and 1412, would modify the authorities under which the National Defense Stockpile disposes of and acquires materials. Together, enacting those provisions would decrease direct spending by a net of $85 million over the 2017-2026 period.

Section 1412 would provide new authority to sell most of the remaining materials in the National Defense Stockpile that have been determined to be excess to requirements and no longer needed for the stockpile. Those materials were among those that had been previously authorized for disposal. The National Defense Stockpile reports that all revenue goals required by current law will be met in 2016. Without this new authority, those materials will remain unsold.

The materials authorized for sale under this proposal include tungsten ores, chromium ferroalloys, chromium metal, and platinum. Under this provision, sales of those materials are authorized up to total receipts of $10 million in 2017, $50 million by 2021, and $150 million by 2026. On the basis of current market prices for those commodities, recent market trends, and the rate at which the National Defense Stockpile has historically disposed of such materials, CBO expects that this authority would increase sales from the stockpile by $150 million over the 2017-2026 period. Under this provision, those amounts would be deposited in the National Defense Stockpile Transaction Fund (a mandatory account known as the T-Fund, which funds the operations of the stockpile).

Another provision in section 1412 would modify the purchasing authority for the National Defense Stockpile by allowing the stockpile manager to spend up to $55 million from the

T-Fund to purchase several materials over the 2017-2021 period. All of those materials have been identified as necessary to meet military and industrial needs. Based on information from DoD, CBO estimates that the T-Fund has sufficient balances to cover the costs of those purchases. CBO estimates that enacting both the new disposal and purchasing authority provisions of section 1412 would, on net, decrease direct spending by a total of $95 million over the 2017-2026 period.

Section 1411 would amend the Strategic and Critical Materials Stock Piling Act to provide greater flexibility to manage the stockpile by expanding authorities under sections 4 and 15 of the act. Costs to implement those new authorities would be paid from the T-Fund. CBO estimates that enacting section 1411 would increase direct spending by $10 million over the 2017-2026 period.

Section 4 of the Stockpiling Act provides DoD with the authority to recover critical materials from other agencies only when the material is in short supply. The Department of Energy is exempt from this limitation and routinely allows DoD to recover critical materials from their inventory of excess equipment. The proposed change to section 4 would provide the same authority for the stockpile manager to review, acquire, and manage disposal of excess strategic and critical materials for other federal agencies as currently exists for materials managed by the Department of Energy.

Section 15 of the Stockpiling Act authorizes DoD to certify domestically produced materials for purchase at domestic facilities in times of national emergencies when existing sources are in short supply. Typically, when materials are in short supply, defense contractors can buy materials needed to build equipment for DoD from the stockpile. By certifying domestic facilities, defense contractors could purchase those materials directly from the supplier. Based on information from DoD, CBO expects that the certifying process would require testing of materials at DoD facilities and inspections of the defense contractor sites.

**Working Capital Fund for Precision Guided Munitions.** Section 882 would establish a new working capital fund (WCF) to finance supplies of guided munitions for use by allied forces and U.S. partners that support overseas contingency operations. The fund would be capitalized with $1 billion of appropriations that would be authorized over the 2017-2018 period, and replenished through subsequent purchases by foreign governments, by the U.S. government, or additional appropriations. For purposes of this estimate, CBO assumes that appropriations from the authorization would total $500 million annually in 2017 and 2018. (Those authorizations are reflected in the specified authorizations detailed in Table 2 and summarized in Table 1.)

Working capital funds established under 10 U.S.C. §2208 are authorized to use contract authority, which allows agencies to incur obligations in advance of appropriations.

Contract authority is a form of budget authority, thus establishing a new WCF under 10 U.S.C. §2208 would result in direct spending.

Absent specific information about the department's plans, CBO assumes DoD would use contract authority in the new fund in the same proportion as in the department's existing funds. During each of the last three years, actual contract authority in the WCFs averaged 5 percent of the annual obligations of the funds. Applying that percentage to the authorized levels discussed above would result in budget authority of $25 million annually in 2017 and 2018 and would increase spending by $50 million over the 2017-2026 period.

**Female Registration for Selective Service.** As discussed above under the heading of "Spending Subject to Appropriation," section 591 would require some women to register for the Selective Service System (SSS), and thus be eligible for a military draft. Men who fail to register lose eligibility for some federal benefits, primarily Pell grants and student loans. Under section 591, the registration requirements and corresponding limits on eligibility for certain federal benefits that currently apply to men also would apply to women who turn 18 on or after January 1, 2018.

CBO projects that the number of students who would no longer receive Pell grants and student loans under this provision would grow from fewer than 500 in award year 2018-2019 to more than 8,000 by 2026-2027 for each program. The bulk of the Pell grant program is classified as discretionary spending (funded through annual appropriations), but a significant portion is mandatory spending. Mandatory funding for both student loans and the mandatory portion of Pell grants is permanent. Over the 2018-2026 period, CBO estimates that enacting section 591 would reduce direct spending for Pell grants by $27 and for student loans by $2 million.

Additionally, the eligibility of a female lawful permanent resident (LPR) to naturalize—that is, to become a U.S. citizen—could be delayed for up to five years if the Department of Homeland Security found she refused or knowingly and willfully failed to register. (Like citizens, LPRs are required to register.) Naturalization affects individuals' eligibility for certain federal benefits (such as Supplemental Security Income) and their ability to sponsor certain relatives to immigrate to the United States—both of which could affect direct spending. However, the Department of Homeland Security could not provide data about why the department denies LPRs' naturalization applications—notably about how frequently it denies male LPRs' applications because of knowing and willful failure to register for the draft. Without such information, CBO cannot estimate the effect that section 591 would have on naturalization and any consequent decreases in direct spending for federal benefits.

**Civilian Sabbaticals.** Section 1111 would authorize DoD to conduct a pilot program through the end of calendar year 2022 allowing employees to take sabbaticals of up to one year. In any given year, no more than 900 employees would be allowed to participate, regardless of the length of each sabbatical. While on sabbatical, employees would be allowed to retain certain benefits offered to federal employees, including coverage under the Federal Employee Group Life Insurance program (FEGLI), but no premiums would be charged to those employees (or their employers) over that period. Direct spending would increase under this section because those employees on sabbatical would be eligible for benefits, but would not pay premiums. Based on the average claim under FEGLI and the number of people affected, CBO estimates that enacting section 1111 would increase costs by less than $500,000 in any given year and total about $1 million over the 2017-2026 period.

**Medals of Honor.** Sections 586 and 587 would authorize award of the Medal of Honor to Charles S. Kettles and Gary M. Rose, respectively, for acts of valor during the Vietnam War. Both recipients would receive a mandatory, monthly stipend starting upon the date of enactment of this bill. The initial payment would include a lump sum amount for payments retroactive to the date of the act of valor. CBO estimates that awarding those two Medals of Honor would increase direct spending by $1 million in 2017 and by an insignificant amount in the following years.

**Military Justice Reform.** Sections 546, 547, and Division E of the bill would make a number of changes to the Uniform Code of Military Justice (UCMJ) affecting activities across the entire military justice system. Those changes would include: modifying the composition of courts-martial; amending pre-trial, trial, and post-trial procedures; codifying a number of offenses currently charged under Article 134 of the UCMJ (General Article); and introducing new specific offenses. Based on information from the Department of Defense, changes to certain punitive articles would provide a more effective and efficient means for DoD to prosecute certain crimes. Because most of the new and newly codified offenses are currently chargeable under existing articles of the UCMJ, CBO estimates that the increase in the number of prosecutions attributable to those provisions would be small and that any resulting fines and forfeitures would total less than $500,000 over the 2017-2026 period. Fines and forfeitures adjudged against enlisted service members, warrant officers, and limited duty officers are classified as revenues and deposited in the Armed Forces Retirement Home Trust Fund. Spending of those amounts would be subject to future appropriation.

**Operating Authority of the Defense Commissary Agency (DeCA).** Section 661 would amend chapter 147 of title 10, United States Code to allow DeCA to set prices for merchandise sold in commissaries based on market conditions and customer demand. Under current law, DeCA is required to set prices at levels necessary to recoup the actual cost of the merchandise plus any costs to replace inventory that has been damaged, degraded, or lost.

Based on information from DoD, CBO expects that DeCA will implement this provision by offering private label goods (i.e. retailer exclusive items) under a variable pricing program. Section 661 would allow DeCA to add a markup to those private label goods and use the proceeds to offset its operating costs. Proceeds from the markup in prices would decrease direct spending by less than $500,000 over the 2017-2026 period, CBO estimates.

**Commissary Privatization Pilot Program.** Section 662 would require DoD to carry out a pilot program over a period of at least two years to privatize up to five commissaries. Privatizing commissaries would reduce the number of commissaries operated by DeCA and thus would reduce certain costs because DeCA would have fewer employees, lower utility expenses, and reductions in other operating expenses. Conversely, privatization also could require additional expenditures for providing severance payments and unemployment compensation to current employees, capital improvements to selected commissaries prior to conveying them to a private agent, and indemnification of participating parties for losses arising from future DoD and congressional action (such as base closures or reductions in military personnel levels in the immediate area).

Section 662 provides few parameters on how DoD should carry out the pilot program; thus, CBO cannot determine what activities DoD might pursue or what form privatization might take. The department could choose to convey the buildings to private-sector retailers and simply act as a lessor for the underlying land. On the other hand, DoD might remain closely involved in the operation of the commissaries and may make commitments for the provision of future appropriations. Privatization programs for other DoD assets such as family housing units and utility systems have involved a variety of arrangements and contract types. Some of those have resulted in significant federal obligations to make payments from subsequent appropriations over the course of many years. CBO believes that the authority to incur such obligations in advance of appropriations constitutes direct spending.

In the absence of any information on how DoD would privatize its commissaries, or details on the terms of agreements between DoD and any prospective grocery retailers, we are unable to estimate any net costs or savings that may result from the pilot program.

**Other Provisions**. Other provisions in the bill would have insignificant effects on direct spending or revenues, generally because very few people would be affected or because the proposal would allow the spending of new receipts so that the net effect would be small.

- Section 501 would reduce the authorized number of general and flag officers (GFOs) by 25 percent beginning in calendar year 2018. Section 509 would permit certain colonels or Navy captains to remain in the service for five years longer than is currently allowed. Based in information from DoD, CBO expects that DoD would implement sections 501 and 509 by accelerating GFO retirements and delaying promotions of colonels or Navy captains to GFO grade. Most of the billets no longer held by GFOs would instead be held by those colonels or captains whose promotions were delayed. Under section 501, some officers would retire sooner, with less retirement pay than they otherwise would, while other officers would retire later, with higher retirement pay.

- Section 510 would extend DoD's authority to offer early retirement. In certain circumstances, that change might affect by a small amount the number of former service members drawing retired pay in a given year.

- Section 553 would permit retired judges from the U.S. Court of Appeals for the Armed Forces to continue receiving their retirement pay if they accepted work in certain federal positions.

- Section 631 would extend the election period during which military academy cadets and midshipmen, members of the Reserve Officers' Training Corps, and certain inactive reserves could opt into the new mixed retirement system.

- Section 706 would allow DoD to treat civilians at military treatment facilities and to accept and spend reimbursements for such services.

- Section 829J would allow the Secretary of the Navy to close out old contracts upon receipt of about $500,000 from the contractor that would be deposited into the Treasury. Also, section 829I would allow the Secretary of Defense to close out old contracts under similar arrangements. In the absence of this authority, these matters would likely remain unresolved over the 2017-2026 period.

- Section 1094 would allow DoD to collect and spend donations on a program to commemorate the 100th anniversary of the Tomb of the Unknown Soldier.

- Section 1221 would extend DoD's authority to accept and use contributions from foreign governments to provide assistance to certain Syrian opposition groups.

- Section 1222 would extend DoD's authority to accept and use contributions from foreign governments to provide assistance to military and other security forces of the Government of Iraq to counter the Islamic State of Iraq and the Levant.

- Section 1673 would allow DoD to accept and spend cash donations to operate a cryptology museum at Fort Meade, Maryland. The section also would allow DoD to assess fees to use the museum's facilities and to spend those proceeds to operate the museum.

## 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 direct spending that are subject to those pay-as-you-go procedures are shown in Table 5.

**TABLE 5. PAY-AS-YOU-GO EFFECTS FOR S. 2943 AS REPORTED BY THE SENATE COMMITTEE ON ARMED SERVICES ON MAY 18, 2016**

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2016-2021 | 2016-2026 |
| **NET INCREASE IN THE DEFICIT** | | | | | | | | | | | | | |
| Statutory Pay-As-You-Go Impact | 0 | 260 | 664 | 771 | 759 | 740 | 901 | 1,258 | 1,592 | 1,852 | 2,117 | 3,192 | 10,912 |

Source: Congressional Budget Office.

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2943 contains intergovernmental and private-sector mandates as defined in UMRA. CBO estimates that the aggregate costs of the mandates would fall below the annual thresholds established in UMRA for intergovernmental and private-sector mandates ($77 million and $154 million in 2016, respectively, adjusted annually for inflation).

## Mandates and Other Effects on Public Entities

**Preemption of State and Local Laws.** The bill contains two preemptions of state and local authority. Because preemptions limit the authority of state and local governments, they are considered intergovernmental mandates under UMRA. However, CBO estimates that the preemptions would impose no duty that would result in additional spending or a loss of revenues by state, local, or tribal governments:

- Section 1055 would preempt state or local laws that require disclosure of information to the public in cases where the Department of Defense has shared information about critical infrastructure with state or local governments and designated the information as sensitive; and

- Section 707 would preempt any state or local laws governing health insurance coverage if they conflict with the terms of coverage in contracts between the Department of Defense and private health insurance carriers.

**Other Effects on Public Entities.** The bill would have other budgetary effects on state, local, and tribal governments—some of which could result in additional spending and others which could provide benefits.

CBO estimates that changes to the TRICARE system would lead some beneficiaries to leave TRICARE and use other federal programs, including Medicaid. CBO estimates that additional federal spending for Medicaid would similarly result in $20 million of additional Medicaid spending by states over the 2018-2026 period as states fulfill cost-sharing requirements under the program. Those requirements, however, would not be intergovernmental mandates as defined by UMRA because Medicaid provides states with significant flexibility to make programmatic adjustments to accommodate the changes.

Section 591 would require all female U.S. citizens who reach the age of 18 years on or after January 1, 2018, to register with the Selective Service System. Many states have enacted laws that support compliance with the federal registration requirement. For example, some states currently require male citizens to prove that they are registered for the Selective Service in order to be eligible for a driver’s license. To the extent that states choose to support the expansion of the Selective Service to women by updating their own laws and regulations, they would incur additional administrative costs; however, those costs would be incurred voluntarily and would not stem from a mandate under UMRA.

The bill would authorize the Department of Defense to continue providing financial assistance to local educational agencies that benefit dependents of armed forces personnel and DoD civilian employees.

The bill would benefit state, local, and tribal governments, as well as other public entities, in Alaska, Utah, and Virginia by authorizing several land conveyances and exchanges between the federal government and those entities. Any costs to those entities resulting from such transactions would be incurred voluntarily.

### Mandates That Apply to Private Entities

**Selective Service Registration.** Section 591 would require women who reach the age of 18 years on or after January 1, 2018, to register with the Selective Service System. Enrollment, either online or by U.S. mail, is a quick and low cost process. Therefore, CBO estimates that the cost to the couple of million women that would be required to register annually would be small.

**Eliminating a Right of Action Related to Activities on Federal Land.** Section 2835 would impose a private-sector mandate by eliminating an individual's existing right to seek compensation from the federal government for damages occurring in the course of any authorized nondefense-related activity conducted on Bureau of Land Management land. Under current law, private entities may seek compensation from the United States in a federal court for damages committed by persons acting on behalf of the United States. The cost of the mandate would be the net forgone value of awards and settlements in such claims. Information from the Department of the Interior indicates that few, if any, of those types of claims related to activities on BLM land are brought against the United States. Because such claims would probably continue to be uncommon, CBO estimates that the cost of the mandate would be small.

## INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting S. 2943 would increase net direct spending and on-budget deficits by more than $5 billion in each of the four consecutive 10-year periods beginning in 2027. That effect would primarily result from section 829A, which would reauthorize the use of Share-in-Savings contracts.

## PREVIOUS CBO ESTIMATE

On May 11, 2016, CBO transmitted a cost estimate for H.R. 4909, the National Defense Authorization Act for Fiscal Year 2017, as reported by the House Committee on Armed Services on May 4, 2016.

Although both S. 2943 and H.R. 4909 would authorize similar amounts of total funding for 2017 (an estimated $603.2 billion), H.R. 4909 would authorize less for war-related operations ($35.7 billion versus $58.9 billion) and more for “base budget” activities and other programs ($567.5 billion versus $544.3 billion) than would S. 2943. However, under H.R. 4909 authorized war-related funding for 2017 would cover only a portion (an estimated seven months) of associated costs for that year.

Both bills contain various provisions that would affect direct spending but in total H.R. 4909 would lower direct spending by $0.2 billion over the 2017-2026 period, while S.2943 would increase direct spending by $10.9 billion over those 10 years.

**ESTIMATE PREPARED BY:**

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