



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Phillip L. Swagel, Director

October 1, 2020

Honorable James M. Inhofe
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

Re: Direct Spending and Revenue Effects of S. 4049, the National Defense Authorization Act for Fiscal Year 2021

Dear Mr. Chairman:

The Congressional Budget Office has completed the enclosed estimate of the direct spending and revenue effects of S. 4049, the National Defense Authorization Act for Fiscal Year 2021, as passed by the Senate on July 23, 2020. Enacting the bill would increase both direct spending and revenues. The net increase in the deficit would total \$7.9 billion over the 2021-2030 period.

The bill would increase net direct spending by about \$8.0 billion over the 2021-2030 period. Those effects arise from 10 provisions:

- Section 1090B would add medical conditions to the list of conditions that are presumed to be associated with exposure to Agent Orange for purposes of disability compensation from the Department of Veterans Affairs;
- Section 6706 would change the timing of certain sales of oil from the Strategic Petroleum Reserve;
- Sections 6701-6705 would direct the Secretary of Energy to enter into agreements to demonstrate advanced nuclear technologies;
- Section 602 would require the Department of Defense (DoD) to provide hazardous-duty pay for military service related to the COVID-19 emergency;
- Section 1092 would make unexpired balances available to support the development of 5G communications technology;
- Section 1413 would allow retirees from the reserve components to reside at the Armed Forces Retirement Home;

- Title XVII, the Hong Kong Autonomy Act, would increase amounts available to compensate victims of state sponsored terrorism;
- Section 707 would require DoD to conduct a pilot program for drug pricing;
- Section 2887 would authorize the transfer of unexpended balances to the Oklahoma City Memorial Fund; and
- Section 551 would result in the award of additional Medals of Honor.

S. 4049 also would increase revenues by \$28 million over the 2021-2030 period, CBO estimates. That increase would arise from the provisions of Title XVII that would impose penalties on individuals and entities who have contributed to undermining Hong Kong's autonomy from China. Other provisions would have insignificant effects on revenues.

Because the bill would affect direct spending and revenues, statutory pay-as-you-go procedures apply.

CBO estimates that enacting S. 4049 would increase on-budget deficits by more than \$5 billion in at least one of the four consecutive 10-year periods beginning in 2031. That long-run increase in the deficit would stem primarily from the additional disability compensation associated with section 1090B.

On March 2, 2020, CBO posted a [cost estimate for S. 2657](#), the American Energy Innovation Act of 2020, as posted on the website of the Senate Committee on Energy and Natural Resources on February 27, 2020. Certain provisions in subtitles E and H of that bill are similar to sections 6701-6706 of S. 4049. Differences between the cost estimates for those bills reflect differences in the language.

On July 1, 2020, CBO transmitted a [cost estimate for S. 4049](#), the National Defense Authorization Act for Fiscal Year 2021, as reported by the Senate Committee on Armed Services on June 23, 2020. That earlier version of S. 4049 would increase direct spending by an estimated \$488 million over the 2021-2030 period. The two versions of S. 4049 have different provisions affecting direct spending and revenues, and CBO's cost estimates reflect those differences.

On July 16, 2020, CBO transmitted a [cost estimate for H.R. 6395](#), the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, as reported by the House Committee on Armed Services on July 9, 2020. That bill,

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which would have insignificant effects on direct spending and revenues, differs from S. 4049, and CBO's cost estimate reflects those differences.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Phillip L. Swagel", with a long, sweeping flourish extending to the right.

Phillip L. Swagel
Director

Enclosure

cc: Honorable Jack Reed
Ranking Member

Table 1, continued

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2020-2025	2020-2030
Total Changes in Direct Spending												
Estimated Budget Authority	806	982	2,585	54	-643	3,297	3,389	1,335	-1,135	-2,640	3,786	8,035
Estimated Outlays	737	1,006	2,610	78	-643	3,132	3,274	1,270	-995	-2,520	3,790	7,954
Increases in Revenues												
Hong Kong Autonomy Act Title XVII ⁹	0	0	*	2	3	4	4	5	5	5	5	28
Net Increase or Decrease in the Deficit From Changes in Direct Spending and Revenues												
Effect on the Deficit	737	1,006	2,610	76	-646	3,128	3,270	1,265	-1,000	-2,525	3,785	7,926

Components may not sum to totals because of rounding; * = between zero and \$500,000.

CBO estimates that enacting S. 4049 would increase on-budget deficits by more than \$5 billion in at least one of the four consecutive 10-year periods beginning in 2031. Other provisions in S. 4049 would have insignificant effects on direct spending and revenues. For this estimate, CBO assumes that S. 4049 will be enacted early in fiscal year 2021.

In addition to the amounts shown above, section 723 would allow the Department of Defense (DoD) to temporarily waive the statutes and regulations that govern the military health system. CBO estimates that provision would increase direct spending by \$440 million over the 2021-2030 period. However, section 5723 of this bill would nullify that authority.

- a. Section 1090B would add Parkinsonism, bladder cancer, and hypothyroidism to the list of conditions that are presumed to be associated with exposure to Agent Orange, a herbicide used by DoD. Veterans who served in the Republic of Vietnam during the Vietnam War who have those conditions would be eligible for disability compensation from the Department of Veterans Affairs.
- b. Section 6706 would change the timing of certain sales of oil from the Strategic Petroleum Reserve.
- c. Sections 6701-6705 would direct the Secretary of Energy to enter into agreements with nonfederal partners to implement projects to demonstrate advanced nuclear technologies.
- d. Section 602 would require DoD to provide hazardous-duty pay to service members who support the Department's response to COVID-19 during calendar year 2020. Payments made for duty performed before the enactment of S. 4049 would be classified as direct spending.
- e. Section 1092 would make \$75 million in expired balances in the Digital Television Transition and Public Safety Fund available to the National Telecommunications and Information Administration and the Department of State to support the development of 5G communications network technology.
- f. Section 1413 would authorize retirees from the reserve components to reside at the Armed Forces Retirement Home. The resident fees paid by those retirees would decrease direct spending.
- g. Title XVII would block access to the property of individuals and entities who have contributed to undermining Hong Kong's autonomy from China. Revenues would increase from penalties for violating economic sanctions on foreign individuals and entities. Under current law, 75 percent of all civil penalty revenues collected from violations of any licenses, orders, regulations, or prohibitions issued under the International Emergency Economic Powers Act is deposited into the Victims of State Sponsored Terrorism Fund. U.S. persons affected by acts of international terrorism can be compensated with payments from the fund, and demand for compensation generally exceeds the balances in the fund. Thus, increasing deposits into the fund would increase direct spending for compensation.
- h. Section 707 would require DoD to conduct a pilot program to promote the distribution of maintenance medications from retail pharmacies. Pharmacy costs for beneficiaries of the military health system who are eligible for Medicare are paid from mandatory appropriations.
- i. Section 2887 would authorize the Department of the Interior to transfer an estimated \$4 million from the National Park Service's national recreation and preservation account to the Oklahoma City National Memorial endowment fund; such amounts could be spent without further appropriation.
- j. Section 551 would authorize awards of the Medal of Honor that cannot be given under current law. Recipients who are living receive monthly pensions that are paid from mandatory appropriations.