CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 8, 2005

H.R. 4337

Gulf Opportunity Zone Public Finance Relief Act of 2005

As passed by the House of Representatives on November 16, 2005

SUMMARY

H.R. 4337 would provide the states of Alabama, Louisiana, and Mississippi an additional opportunity to advance refund certain tax-exempt bonds. (Advance refunding occurs when a state or local government issues new tax-exempt bonds and uses the proceeds from the new bonds to gradually repay the debt on their existing tax-exempt bonds. Current law limits the number of times an entity can advance refund.) The act also would allow the same three states to issue a total of $350 million in new tax-credit bonds. The Joint Committee on Taxation (JCT) estimates that enacting those two provisions would decrease federal revenues by $774 million over the 2006-2015 period.

H.R. 4337 also would authorize the Secretary of Treasury to guarantee 50 percent of the outstanding principal of certain bonds issued by Alabama, Louisiana, and Mississippi. The legislation would limit the total principal of those bonds to $3 billion. CBO estimates that those guarantees would increase direct spending by $60 million over the 2006-2007 period (for the estimated subsidy cost of such gurarantees).

CBO has determined that the nontax provisions of this legislation contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). Alabama, Louisiana, and Mississippi would benefit from the provisions of the H.R. 4337, and any costs to those governments would be incurred voluntarily as a condition of federal assistance.

CBO has reviewed the nontax provisions in section 4 of the Gulf Opportunity Zone Public Finance Relief Act of 2005 and determined that they contain no private-sector mandates as defined in UMRA.

JCT has not reviewed the tax provisions of H.R. 4337 for the presence of mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4337 is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development).

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN REVENUES										
Estimated Revenues	-99	-124	-129	-116	-104	-92	-72	-48	-32	-19
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	45	15	0	0	0	0	0	0	0	0
Estimated Outlays	45	15	0	0	0	0	0	0	0	0

BASIS OF ESTIMATE

JCT estimates that the legislation would lower federal revenues by allowing Alabama, Louisiana, and Mississippi to advance refund certain tax-exempt bonds and issue new tax-credit bonds. CBO estimates that enacting H.R. 4337 would increase direct spending by authorizing the Secretary of Treasury to guarantee certain bonds issued by Alabama, Louisiana, and Mississippi.

Revenues

H.R. 4337 would affect tax receipts by allowing Alabama, Louisiana, and Mississippi to advance refund certain tax-exempt bonds and to issue new tax-credit bonds. Section 3 of H.R. 4337 would allow the three states one additional advance refunding of certain bonds through 2011, up to specified dollar limits of total refundings. In refundings, state and local governments refinance their debt to take advantage of lower prevailing interest rates. Unlike "current refundings," in which state and local governments issue new bonds and use the proceeds to immediately pay off existing bonds, in advance refundings, the proceeds are used to pay off the existing bonds gradually over time. As a result, advance refundings increase the total amount of tax-exempt debt outstanding, which substitutes for taxable debt in the economy. JCT estimates that the advance refunding provisions would lower receipts by $47 million in 2006, $469 million over the 2006-2010 period, and $717 million over the 2006-2015 period.

H.R. 4337 would also allow the three states to issue certain amounts of new "Gulf tax-credit bonds." In contrast to conventional tax-exempt bonds, in which the state or local governments pay tax-exempt interest to the bondholder, tax-credit bonds pay a return in the form of tax credits against federal income tax liability. JCT estimates that the additional tax-credit bonds would reduce federal tax receipts by $7 million in 2006, $43 million over the 2006-2010 period, and $57 million over the 2006-2015 period.

Direct Spending

H.R. 4337 would authorize the Secretary of Treasury to guarantee 50 percent of the principal of new general obligation bonds issued by Alabama, Louisiana, and Mississippi. The legislation would limit the total principal of those bonds to $3 billion, with the federal government guaranteeing $1.5 billion of that total. The act also would require all of the bonds to be issued before January 1, 2008.

Guaranteeing a state general obligation bond under H.R. 4337 would constitute a loan guarantee as defined by the Federal Credit Reform Act of 1990. Under credit reform, the subsidy cost of a loan guarantee is recorded in the budget in the year the guarantee is provided. (The subsidy cost is the estimated long-term cost to the government of the guarantee, calculated on a net-present-value basis.) Based on recent credit ratings of Alabama, Louisiana, and Mississippi, CBO estimates a total subsidy cost of $60 million for guaranteeing bonds for those three states under H.R. 4337. CBO expects that the states would issue most of the bonds in 2006 and the rest of the bonds in 2007.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has determined that the nontax provisions of H.R. 4337 contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act. Alabama, Louisiana, and Mississippi would benefit from the provisions of the H.R. 4337, and any costs to those governments would be incurred voluntarily as a condition of federal assistance. JCT has not reviewed the tax provisions of H.R. 4337 for intergovernmental mandates.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

CBO has reviewed the nontax provisions in section 4 of the Gulf Opportunity Zone Public Finance Relief Act of 2005 and determined that they contain no private-sector mandates as defined in UMRA.

JCT has not reviewed the tax provisions of H.R. 4337 for private-sector mandates.

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