CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 29, 2007

H.R. 3920
Trade and Globalization Assistance Act of 2007

As ordered reported by the House Committee on Ways and Means on October 25, 2007

SUMMARY

H.R. 3920 would reauthorize and expand coverage for the Trade Adjustment Assistance (TAA) programs, which are scheduled to expire on December 31, 2007. The bill also would:

- Amend provisions in current law that authorize health care benefits for certain individuals,
- Provide special transfers to states from the federal unemployment trust funds,
- Extend an expiring provision of the Federal Unemployment Tax Act (FUTA),
- Authorize new tax incentives for areas experiencing significant declines in manufacturing activity, and
- Delay the implementation of tax rules related to the allocation of interest expenses.

CBO and the Joint Committee on Taxation (JCT) estimate that enacting H.R. 3920 would increase direct spending by $0.3 billion in 2008 and $8.6 billion over the 2008-2017 period. In addition, CBO and JCT estimate that revenues under the bill would increase by $1.0 billion in 2008 and $9.4 billion over the 2008-2017 period.

CBO also estimates that implementing H.R. 3920 would increase spending for discretionary programs authorized in the bill by $30 million in 2008, and $338 million over the 2008-2012 period, assuming appropriation of the estimated amounts.

CBO reviewed the non-tax and employment insurance provisions of the bill and determined that the bill would impose an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA). The bill would allow the Secretary of Labor to subpoena information from state and local governments to determine whether their workers have been adversely affected by trade. CBO estimates that the costs to governments to comply with a subpoena would be small and well below the threshold established in UMRA ($66 million in 2007, adjusted annually for inflation). JCT reviewed the tax provisions of the bill and has determined those provisions contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

JCT determined that the tax provisions of the bill contain two private-sector mandates. CBO has determined that the employment insurance provisions of the bill also contain a private-sector mandate. In aggregate, the costs of all the mandates in the bill would exceed the annual threshold established by UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3920 is shown in Table 1. The costs of the legislation fall under budget functions 350 (agriculture), 450 (community and regional development), 500 (education, employment, training and social services), 550 (health), and 600 (income security).

TABLE 1. BUDGETARY EFFECTS OF H.R. 3920

	By Fiscal Year, in Millions of Dollars						
	2008	2009	2010	2011	2012	2008-2012	2008-2017
CHANGES IN DIRECT SPENDING							
Estimated Budget Authority	357	1,044	1,009	957	966	4,333	9,236
Estimated Outlays	257	809	889	927	941	3,823	8,641
CHANGES IN REVENUES							
Total Revenues	952	2,254	3,931	2,829	1,452	11,415	9,370
CHANGES IN SPENDING SUBJECT TO APPROPRIATION							
Changes in Spending Subject to Appropriation							
Estimated Authorization Level	129	143	144	144	144	704	n.a.
Estimated Outlays	30	51	79	89	89	338	n.a.

Note: n.a. = not applicable.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 3920 will be enacted early in fiscal year 2008, that the full amounts authorized will be appropriated for each year, and that outlays will follow historical patterns.

Direct Spending

H.R. 3920 would reauthorize, expand coverage for, and increase benefits under the TAA for Workers program. (Authorization for the current program expires on December 31, 2007.) In addition, the bill would amend provisions related to health care benefits that are available to individuals who receive TAA benefits and individuals who receive their pension checks from the Pension Benefit Guaranty Corporation (PBGC). The bill also would make funding available to the states for their unemployment compensation programs, and would encourage the states to adopt laws that cover more people. In total, CBO estimates that enacting H.R. 3920 would increase direct spending by $0.3 billion in 2008, and $8.6 billion over the 2008-2017 period, as shown in Table 2.

TAA for Workers. H.R. 3920 would reauthorize the TAA for Workers program through fiscal year 2012. That program provides extended unemployment compensation for up to 104 weeks, typically called trade readjustment allowances (TRAs), for workers who lose their job as a result of increased international trade. Workers certified to be eligible for TAA also may receive benefits to offset the costs associated with retraining, job search, and relocation expenses. In addition, TAA beneficiaries are eligible to receive a subsidy for the costs of purchasing health insurance during their period of unemployment.

In fiscal year 2006, nearly 120,000 workers were certified as eligible to receive TAA benefits, and about 60,000 individuals started to receive cash and training benefits. TAA outlays, including the outlays from the health insurance subsidy, totaled about $775 million in 2006. Consistent with the budget projection rules in section 257 of the Deficit Control Act, the costs of extending TAA for Workers are included in CBO's baseline and are therefore not included in the costs attributable to this bill. CBO estimates those costs would total about $10.2 billion over the 2008-2017 period.

TABLE 2. CHANGES IN DIRECT SPENDING UNDER H.R. 3920

	By Fiscal Year, in Millions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
TAA for Workers												
Service Workers and Other Eligibility Criteria												
Estimated Budget Authority	50	210	220	230	240	250	260	270	285	295	950	2,310
Estimated Outlays	25	130	215	225	235	245	255	265	275	290	830	2,160
Industry-Wide Trade Adjustment Assistance												
Estimated Budget Authority	0	50	105	110	115	120	120	125	130	135	380	1,010
Estimated Outlays	0	25	80	110	110	115	120	125	130	130	325	945
Program Benefits												
Estimated Budget Authority	120	270	370	390	405	420	430	445	460	470	1,555	3,780
Estimated Outlays	55	175	300	370	395	410	425	435	450	465	1,295	3,480
Health Care Provisions [a]												
Estimated Budget Authority	167	234	-41	-158	-194	-214	-221	-230	-239	-248	8	-1,145
Estimated Outlays	167	234	-41	-158	-194	-214	-221	-230	-239	-248	8	-1,145
Wage Insurance [b]												
Estimated Budget Authority	15	60	75	80	85	85	85	90	90	90	315	755
Estimated Outlays	5	25	55	75	80	85	85	85	90	90	240	675
Subtotal												
Estimated Budget Authority	352	824	729	652	651	661	674	700	726	742	3,208	6,711
Estimated Outlays	252	589	609	622	626	641	664	680	706	727	2,698	6,116
Unemployment Insurance												
Estimated Budget Authority	5	220	280	305	315	320	300	260	255	265	1,125	2,525
Estimated Outlays	5	220	280	305	315	320	300	260	255	265	1,125	2,525
Total Changes												
Estimated Budget Authority	357	1,044	1,009	957	966	981	974	960	981	1,007	4,333	9,236
Estimated Outlays	257	809	889	927	941	961	964	940	961	992	3,823	8,641
Memorandum: Spending Assumed in CBO's Baseline for TAA												
Estimated Budget Authority	939	971	992	1,012	1,034	1,056	1,079	1,103	1,127	1,153	4,948	10,466
Estimated Outlays	694	917	990	1,010	1,032	1,054	1,077	1,101	1,125	1,150	4,643	10,150

Note: TAA = Trade Adjustment Assistance; components may not add up to totals because of rounding.

a. Estimate of the direct spending effects of the health care provision are provided by the Joint Committee on Taxation.
b. Based on consultation with the House Committee on the Budget, CBO has extended the costs of wage insurance through 2017.

In addition to reauthorizing the program, the bill would make several changes to the TAA for Workers program by:

- Increasing the number of workers certified as eligible for TAA by expanding eligibility to include service workers and relaxing some eligibility criteria,
- Providing industry-wide coverage,
- Raising benefit levels for all beneficiaries,
- Temporarily increasing health benefits, and
- Extending and expanding the wage insurance program.

In total, CBO estimates those changes would increase direct spending by $0.3 billion in 2008 and by $6.1 billion over the 2008 to 2017 period.

TAA for Service Workers and other eligibility criteria. Subtitle A of the bill would extend eligibility under the TAA for Workers program to individuals in the service and public sectors who lose their jobs as the result of increased imports of similar services or shifts in the location where those services are produced (overseas outsourcing). The subtitle also would make it easier for all workers to qualify for benefits when the eligibility criterion is that production shifted or that imports have increased. The subtitle would provide for the automatic certification of workers laid off from firms covered by an affirmative injury determination under certain U.S. trade laws. CBO estimates that those expansions in coverage would increase direct spending for TRAs by $25 million in fiscal year 2008 and $2.2 billion over the 2008-2017 period. (Those additional certified workers also would be eligible for training and other benefits under TAA. The costs of extending those benefits to the additional certified workers are discussed below under the heading "Program Benefits.")

Using methodology employed in previous estimates of expanding coverage and relaxing eligibility criteria, CBO estimates that the number of workers certified to receive TAA benefits would increase by nearly 80,000 workers a year. The bill would require the automatic certification of workers in industries that are covered by affirmative injury determinations of antidumping and countervailing duty cases investigated by the International Trade Commission (ITC). Based on historical determinations by the ITC and employment in the industries affected, CBO estimates that an additional 4,000 workers annually could be certified under that provision.

In order to collect those benefits, a certified worker must first exhaust his or her eligibility for regular unemployment compensation. Based on the CPS data, CBO expects that the majority of dislocated workers would find new employment before reaching that point. CBO estimates that, under the new provisions, on average, 22,000 additional certified individuals would begin to collect TRAs under the TAA for workers program each year, at an average cost of $10,000 per individual

Industry-Wide TAA. Beginning in 2009, subtitle B of the bill would require DOL to decide whether it should certify all workers in an industry once the department has certified three petitions in the same industry within a 180-day period. Based on our analysis of recent certifications by industry, CBO estimates that certifications of individuals under this provision could increase by about 20 percent—or by nearly 50,000 people per year. However, CBO expects that workers certified in this manner would be less likely to claim benefits. Accounting for those effects, CBO estimates that just under 10,000 people per year would collect TRA under this provision, increasing costs for the TAA for Workers program by about $0.9 billion over the 2008-2017 period. (Individuals certified under the Industry-Wide provisions also would be eligible for training and other benefits. The costs of providing those benefits are discussed in the following section).

Program Benefits. Subtitle C would expand benefits available under the TAA for Workers program. CBO estimates that those benefit expansions would increase outlays by $55 million in 2008 and $3.5 billion over the 2008-2017 period. Significant provisions of the bill would:

- Raise the cap on training,
- Provide additional weeks of TRA,
- Codify the current practices related to funding administrative expenses, and
- Increase funding for certain services.

Raising the Cap on Training. Increasing the cap on training from $220 million to $440 million in 2008—and again to $660 million in 2010—would allow workers newly certified under the bill to receive training benefits, which average about $7,000 per enrollee. CBO estimates that nearly half of the cost of the benefit expansions (about $1.6 billion) would result from raising that cap. About 75 percent of those costs would stem from providing benefits to additional workers certified under the bill's eligibility expansions. CBO estimates that about 17,000 of those additional certified workers would enroll in training each year. The remaining costs would result from covering workers that would be certified under current law in years in which CBO estimates that the $220 million cap would otherwise be binding.

Providing Additional Weeks for Training. H.R. 3920 would allow certain beneficiaries in training programs to draw TRA for longer than under current law. The bill also would extend the deadline for beneficiaries to choose to receive training. CBO estimates that enacting those changes would cost about $1.1 billion over the next 10 years. About half of those costs would stem from providing an additional 26 weeks of TRA benefits for those individuals who require prerequisite training courses before they could begin their approved training. (Current law already allows that additional time for individuals requiring remedial training.)

Funding Administration and Case Management. Under current practice, DOL provides 15 percent of the training cap amount to the states for administrative expenses related to the TAA for Workers program. H.R. 3920 would codify that practice. The bill also would provide each state with a grant equal to 0.06 percent of the training funds for dedicated case management and employment services. CBO estimates that enacting those provisions would cost $0.7 billion over the 2008-2017 period.

Health Care Provisions. In addition, the bill would modify the health coverage tax credit (HCTC), which is a refundable tax credit for some health insurance costs that is available to workers who are eligible for TAA and individuals who receive their pension through the PBGC. By expanding eligibility for TAA, the bill would increase the number of individuals eligible for the HCTC. The bill also would increase the portion of health insurance expenses that would be covered, and repeal the credit at the end of 2009. JCT estimates that the provision would increase outlays for the refundable tax credit by $167 million in 2008, and by $8 million over the 2008-2012 period, and reduce outlays by $1.1 billion over the 2008-2017 period. The effect on revenues is discussed below under the heading "Revenues."

H.R. 3920 would result in negligible savings to Medicaid by increasing the number of TAA beneficiaries and their dependents who would take the health insurance tax credit. In the absence of the tax credit, some portion of those workers would enroll in Medicaid under current law. Under the bill, those individuals instead would use the Health Coverage Tax Credit to enroll in a qualified health insurance plan. CBO estimates that these savings to Medicaid would be less than $500,000 in each year in fiscal years 2008 and 2009. CBO estimates that costs to Medicaid could rise in the years after the tax credit would expire, but does not expect those costs to be significant.

Wage Insurance. The Trade Act of 2002 created a pilot program for Alternative Trade Adjustment Assistance. That pilot allows individuals eligible for TAA who are age 50 and above to receive a wage subsidy in lieu of TRA and training benefits, if they took a lower paying job than the one they lost. That pilot program expires at the end of fiscal year 2008. Around 7,000 individuals received benefits of about $25 million under that pilot program through 2006. Because outlays for the program under current law are estimated to be less than $50 million in the year in which the program expires, its costs are not assumed to continue in baseline.

H.R. 3920 would extend the program for an additional 5 years, and would rename it "Reemployment Trade Adjustment Assistance." The bill would increase the limit on annual wages for eligible reemployment to $60,000 from the current $50,000, and would increase the maximum wage benefit to $12,000 over two years from the current $10,000. H.R. 3920 also would allow beneficiaries more time to choose the wage insurance option, and would allow them to participate in TAA-subsidized training. Based on current participation levels, CBO estimates that 2 to 3 percent of certified workers would opt for the wage subsidy, roughly 7,000 people per year, and that the average subsidy received would total nearly $10,000 over the individual's eligibility period. In total, CBO estimates that enacting those amendments to the wage insurance program would increase direct spending by $5 million in fiscal year 2008 and $0.7 billion over the 2008-2017 period.

Unemployment Insurance. H.R. 3920 would provide transfers of up to $7.5 billion to the states for their unemployment compensation programs. Of that amount, $7 billion would be available to states that currently meet certain criteria or that change their laws to match those criteria. Another $500 million would be distributed among all of the states to improve unemployment insurance operations.

Based on current state laws, CBO estimates that most states either do not or will not meet the necessary criteria to receive their full share of the $7 billion that would be available. CBO estimates that a total of $2.4 billion would be distributed over the 10-year period; split about equally between states that currently meet the criteria and states that we expect would change their laws to meet the necessary criteria. The amounts transferred to the state trust funds would be considered intragovernmental transfers within the federal budget and are not shown in our estimates of outlays and revenues. However, CBO expects those transfers would have an effect on unemployment compensation and state employment taxes. CBO estimates that outlays for unemployment compensation would increase by $2.5 billion from additional benefits paid by the states that would change their laws in order to meet the necessary criteria for them to draw their share of the $7 billion and from the special distribution to all states ($0.5 billion).

Revenues

The bill would modify unemployment insurance taxation, provide new tax incentives for areas with significant declines in manufacturing activity, modify the health coverage tax credit, and delay the implementation of tax rules related to allocation of interest expenses. CBO and JCT estimate that the bill would increase revenues by about $1.0 billion in 2008, $11.4 billion over the 2008-2012 period, and $9.4 billion over the 2008-2017 period, as shown in Table 3.

TABLE 3. CHANGES IN REVENUES UNDER H.R. 3920

	By Fiscal Year, in Millions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
Delay World-Wide Interest Application	0	999	2,736	2,845	1,987	0	0	0	0	0	8,567	8,567
Unemployment Compensation [a]	1,041	1,459	1,427	267	-253	-337	-314	-206	-69	36	3,941	3,051
Manufacturing Redevelopment Zones	-18	-104	-250	-351	-365	-348	-337	-329	-321	-314	-1,090	-2,739
Health Coverage Tax Credit	-71	-100	18	68	83	92	95	98	102	106	-3	491
Total Revenues	952	2,254	3,931	2,829	1,452	-593	-556	-437	-288	-172	11,415	9,370

Note: Components may not add up to totals because of rounding.

a. Revenues associated with unemployment compensation estimated by CBO. All other revenue estimates are provided by the Joint Committee on Taxation.

Delay in application of worldwide interest allocation. The bill would delay until 2012 the effective date of a provision enacted in the American Jobs Creation Act of 2004 that, starting in 2009, allows businesses to use an alternative method for allocating their interest expenses between the United States, and foreign sources. JCT estimates that the delay would increase revenues by $8.6 billion over the 2009-2012 period.

Unemployment Compensation. The Federal Unemployment Tax Act (FUTA) imposes on employers an effective tax of 0.8 percent on the first $7,000 in wages paid annually to each employee. The 0.8 percent tax includes a 0.2 percent surtax that is scheduled to expire on December 31, 2007. The bill would extend the surtax to December 31, 2010, which CBO estimates would increase revenues by $1 billion in 2008 and by $4.4 billion over the 2008-2011 period.

In addition, the bill would provide for transfers to the states from the Federal Unemployment Account (FUA). CBO estimates that transfers of $2.4 billion would occur over the 2009-2012 period. Because the state funds are included in the unified federal budget, those transfers would have no immediate budgetary effect. However, CBO expects that some states would respond to the higher balances in their unemployment trust funds by increasing the unemployment benefits they pay or reducing their unemployment taxes. CBO estimates that the transfers would cause revenues on net to decrease by $452 million over the 2008-2012 period and $1.3 billion over the 2008-2017 period.

Manufacturing Redevelopment Zones. Under the bill, the Treasury Department would designate certain areas that have experienced significant declines in manufacturing activity as "manufacturing redevelopment zones," which would receive tax advantages such as the authority to issue additional tax credit and tax-exempt bonds. JCT estimates that the provisions would reduce revenues by $18 million in 2008, $1.1 billion over the 2008-2012 period, and $2.7 billion over the 2008-2017 period.

Revenues under HCTC. In addition, the bill would modify the health coverage tax credit, which is a refundable tax credit for some health insurance costs that is available to certain individuals: workers who are eligible for TAA and those who receive their pension from PBGC. By expanding eligibility for TAA, the bill would expand the coverage under the HCTC to additional individuals. The bill also would increase the portion of health insurance expenses that would be covered and repeal the credit at the end of 2009. JCT estimates that the changes would reduce revenues by $71 million in 2008 and by $3 million over the 2008-2012 period, and increase revenues by $491 million over the 2008-2017 period. (JCT also estimates that the provision would increase outlays for the refundable tax credit by $167 million in 2008, and by $8 million over the 2008-2012 period, and reduce outlays by $1.1 billion over the 2008-2017 period, as discussed above under the heading "Direct Spending.")

Spending Subject to Appropriation

In total, CBO estimates that H.R. 3920 would authorize the appropriation of $129 million in 2008 and $704 million over the 2008-2012 period. Appropriation of those amounts would result in estimated outlays of $338 million over the next five years, as shown in Table 4.

Trade Adjustment Assistance for Farmers. The bill would authorize the appropriation of $81 million in 2008 and $90 million for each of fiscal years 2009 through 2012 for the TAA for Farmers program. TAA for Farmers assists eligible farmers to cope with increased import competition resulting from trade liberalization. Assuming appropriation of the authorized amounts, CBO estimates that implementing this section would cost $26 million in 2008 and about $166 million over the 2008-2012 period.

TABLE 4. CHANGES IN SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 3920

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
TAA for Farmers					
Estimated Budget Authority	81	90	90	90	90
Estimated Outlays	26	35	35	35	35
TAA for Firms					
Estimated Budget Authority	46	50	50	50	50
Estimated Outlays	13	13	40	50	50
Other Provisions					
Estimated Budget Authority	2	3	4	4	4
Estimated Outlays	1	3	4	4	4
Total - Changes in Spending Subject to Appropriation					
Estimated Budget Authority	129	143	144	144	144
Estimated Outlays	30	51	79	89	89

Note: TAA = Trade Adjustment Assistance.

Trade Adjustment Assistance for Firms. The bill would authorize the appropriation of $50 million for each of fiscal years 2008 through 2012 for the TAA for Firms program. The bill would strike language authorizing the appropriation of $4 million for the first three months of 2008 (see Public Law 110-89) for a net increase of $46 million for 2008. The TAA for Firms program provides financial assistance to manufacturers that have been adversely affected by import competition. The bill would expand the program to include service sector firms and would establish a demonstration program to help small- and medium-sized manufactures gain access to resources to help them compete in foreign and domestic markets. Assuming appropriation of the specified amounts, CBO estimates that implementing these sections would cost $156 million over the 2008-2012 period.

Other Provisions. H.R. 3920 also would:

- Increase the number of TAA petitions to be reviewed and certified each year,

- Establish an office of Trade Adjustment Assistance within the Department of Labor to implement and oversee the administration of the TAA program,

- Require the Department of Labor to collect and disseminate data on all adversely affected workers who apply for or receive adjustment assistance,

- Require the Government Accountability Office to conduct studies on the health insurance tax credit allowed under section 35 of the Internal Revenue Code of 1986 and the procedures for the allocation of training funds, and

- Establish a Safety Net Review Commission to evaluate employment assistance programs and make recommendations for their improvement.

In total, based on similar activities, CBO estimates that these provisions would cost $1 million in 2008 and $16 million over the 2008-2012 period, assuming appropriation of the necessary amounts.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO reviewed the employment insurance provisions of the bill and determined that section 101 would impose an intergovernmental mandate as defined in UMRA. That section would extend trade assistance benefits to workers in public agencies. Because the Secretary of Labor is authorized under the act to subpoena information from employers for the purpose of certifying workers as adversely affected by trade, state and local government officials would be required, if subpoenaed, to attend hearings, provide testimony, or produce documents. That requirement would be an intergovernmental mandate as defined in UMRA; however, CBO estimates that the costs to comply with a subpoena would small and well below the threshold established in UMRA ($66 million in 2007, adjusted annually for inflation).

JCT reviewed the tax provisions of the bill and has determined those provisions contain no intergovernmental mandates as defined in UMRA.

In general, states that provide employment services, training, and supplemental assistance under cooperative agreements would benefit from the programs authorized in the bill. Any costs those states might incur to comply with program conditions would be incurred voluntarily.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT and CBO have determined that the bill contains private-sector mandates as defined in the Unfunded Mandates Reform Act. In aggregate, the costs of all the mandates in the bill would exceed the annual threshold established by UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation).

Tax Provisions

JCT determined that the tax provisions of the bill contain two private-sector mandates: 1) Sunset of the health coverage tax credit; and 2) delayed implementation of worldwide interest allocation. Based on information provided by JCT, CBO has determined that the costs of those mandates could total several billion dollars over the next five years.

Employment Insurance Provisions

CBO determined the employment insurance provisions of the bill would impose a private-sector mandate, as defined in UMRA, because the bill would extend the FUTA surtax on employers that is currently scheduled to expire at the end of 2007. CBO estimates the cost of that mandate would be several billion dollars over the next four years.

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