CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 14, 2003

State and Local Government Economic Empowerment Act

As transmitted to CBO by Congressman Ray LaHood on April 28, 2003

SUMMARY

The draft legislation would authorize interest-free loans to state, county, municipal, and tribal governments for capital projects, including highways, sewer systems, and public buildings. It also would appropriate such sums as would be necessary to make these loans. CBO estimates that enacting the draft legislation would increase direct spending by about $105 billion over the 2004-2008 period and $5 billion in 2009.

The draft legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. Enacting the legislation would benefit any state, local, tribal, and territorial governments that receive interest-free loans under the bill.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the draft legislation is shown in the following table. The costs of this legislation fall within budget function 800 (general government).

	By Fiscal Year, in Billions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	10	20	20	30	25	5	0	0	0	0
Estimated Outlays	10	20	20	30	25	5	0	0	0	0

BASIS OF ESTIMATE

For this estimate, CBO assumes the draft legislation will be enacted early in fiscal year 2004. Enacting this proposal would increase direct spending because it would appropriate the amounts needed to implement the program (that is, no further appropriation action would be necessary).

Under the draft legislation, every state, county, municipal, or tribal government could receive one loan, and each government could borrow between $200 and $1,000 for each person under its jurisdiction, depending on whether the government represented a state, county, municipality, or tribe. The proposal also would require the federal government to begin disbursing all loans within five years of enactment. Based on information from the 2000 census, CBO estimates that the federal government could lend a total of about $235 billion over the next several years if each unit of government were to apply for the maximum amount available.

According to Census Bureau reports, annual spending for capital projects by state and local governments increased significantly over the 1980-1996 period, rising from $63 billion in 1980 to $160 billion in 1996. The draft legislation would provide very favorable loan terms for governments to fund such projects; however, CBO does not expect that governments would borrow the maximum amount available. Some governments have statutory limits on their debt, others might apply for less than the maximum amount or not apply for any loan within the five-year period of availability, and still others may not be eligible for a loan under the draft legislation because of delinquency in repaying a prior loan. For these reasons, CBO estimates that the federal government would loan about $200 billion over six years under the proposal. CBO expects that loan disbursements would peak (probably in 2007) at about $55 billion, which is equivalent to about one-third of the amount spent by states and localities on capital projects in 1996. The actual value of loans demanded by state, local, and tribal governments could be higher or lower than this estimate. For example, an increase (or decrease) of $5 billion in the demand for loans under the bill would add (or subtract) about $2.8 billion to the cost of enacting the legislation.

The Federal Credit Reform Act requires an up-front appropriation for the subsidy costs of loan programs. The subsidy cost equals the estimated long-term cost to the government of loans calculated on a net-present-value basis, excluding administrative costs. CBO estimates that the subsidy cost of loans provided under the draft legislation would equal about 55 percent of the principal amount, or a total cost of $110 billion. Most of this subsidy cost is due to provisions in the draft legislation that would require the federal government to provide loans without charging interest and allow state and local governments to repay the loans over a 30-year period. About 5 percent of the estimated subsidy cost stems from the risk of default by state, local, and tribal governments.

Under the draft legislation, the administrative costs of the loan program would be offset by fees paid by borrowers. Consequently, administrative costs would not add to the cost of this proposal.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The draft legislation contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, tribal, and territorial governments that receive interest-free loans.

ESTIMATE PREPARED BY:

Federal Costs: Rachel Milberg
Impact on State, Local, and Tribal Governments: Theresa Gullo
Impact on the Private Sector: Cecil McPherson

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis