



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 1, 1997

H.R. 1789

A bill to reauthorize the dairy indemnity program

As ordered reported by the House Committee on Agriculture on September 24, 1997

SUMMARY

H.R. 1789 would reauthorize the Dairy Indemnity Program (DIP) through September 30, 2002, and would require the Secretary of Agriculture to report to the Congress within 180 days on alternative methods of financing the program. The program authorizes the Secretary to make indemnity payments to dairy farmers and manufacturers of dairy products who, through no fault of their own, were directed to remove their milk or dairy products from commercial markets because of toxic residues or the presence of nuclear radiation or fallout.

Based on historical expenditures for dairy indemnity payments, CBO estimates that enacting H.R. 1789 would result in additional discretionary spending of about \$2 million over the 1998-2002 period, assuming appropriation of the necessary amounts. H.R. 1789 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply. The legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would have no significant impact on the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

For the purposes of this estimate, CBO assumes (1) that the authorization to make indemnity payments will require funding at roughly the same level as the average annual payments over the past 10 years, and (2) that all amounts estimated to be authorized will be appropriated by (or near) the start of each fiscal year. The estimated budgetary impact of H.R. 1789 is shown in the following table.

	By Fiscal Year, in Millions of Dollars					
	1997	1998	1999	2000	2001	2002
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Budget Authority ^a	0.1	--	--	--	--	--
Estimated Outlays ^b	0.3	--	--	--	--	--
Proposed Changes						
Estimated Authorization Level ^c	--	0.6	0.3	0.3	0.3	0.3
Estimated Outlays	--	0.6	0.3	0.3	0.3	0.3
Spending Under H.R. 1789						
Estimated Authorization Level ^{a, c}	0.1	0.6	0.3	0.3	0.3	0.3
Estimated Outlays	0.3	0.6	0.3	0.3	0.3	0.3

a. The 1997 level is the amount appropriated for that year.

b. Outlays reflect prior appropriations still available. Total funds available were insufficient to cover all valid claims.

c. The 1998 level includes additional funds for valid, unpaid 1997 claims, as would be authorized by H.R. 1789.

The costs of this legislation fall within budget function 350 (agriculture).

BASIS OF ESTIMATE

The Dairy Indemnity Program (DIP) was originally authorized by the Economic Opportunity Act of 1964, and its most recent authorization expired on September 30, 1995. Funding for DIP is provided through discretionary appropriations. Payments under DIP are issued after a documented loss has occurred. Annual payments do not follow any particular pattern, ranging from no payments in 1986 to \$8.2 million in 1987 (because of a major heptachlor contamination incident). The majority of DIP claims in 1996 and 1997 have been because of aflatoxin contamination. Milk produced by dairy cows with feed containing aflatoxin could contain more than the permitted amount of aflatoxin and be removed from the market by a government agency. Because aflatoxin contamination may only occur under certain weather conditions, it is difficult to estimate the amount of money needed to indemnify dairy producers each year.

Payments under DIP over the past 10 years have averaged about \$200,000 per year. However, payments for 1997 claims were restricted because of a lack of funds. All of the \$257,305 available for 1997 was expended by February 12, 1997. As a result, the conference report for fiscal year 1998 appropriations would provide \$550,000 for DIP in 1998; that level is intended to cover both expected 1998 payments and valid claims made in 1997 but not yet paid because of lack of funds. CBO expects that the entire \$550,000 estimated for 1998 will be expended in 1998 to cover new claims and pending 1997 claims. Adjusting the historical average for the unfunded 1997 claims and assuming appropriation of the necessary sums, CBO estimates that annual DIP payments over the 1999-2002 period will average \$250,000.

PAY-AS-YOU-GO CONSIDERATIONS: None.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1789 contains no private-sector or intergovernmental mandates as defined in UMRA and would have no significant impact on the budgets of state, local, or tribal governments.

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