CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 9, 1998

H.R. 4058
A bill to amend Title 49, United States Code, to extend the aviation insurance program, and for other purposes

As ordered reported by the House Committee on Transportation and Infrastructure on June 25, 1998

SUMMARY

H.R. 4058 would amend Title 49 of the U.S. Code to extend the authorization for the aviation insurance program to December 31, 2003. The bill also would clarify the conditions under which a person may bring a civil action against the United States government for a loss insured under the program.

Enacting H.R. 4058 could increase federal spending, but because claims under the aviation insurance program are very rare, CBO estimates that extending the program would probably have no significant impact on the federal budget over the next five years. Because the bill could affect direct spending, pay-as-you-go procedures would apply. H.R. 4058 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would have no impact on the budgets of state, local, or tribal governments.

BACKGROUND

The Federal Aviation Administration's (FAA's) aviation insurance program insures aircraft operations that are deemed essential to the foreign policy interests of the United States when commercial insurance is unavailable on reasonable terms. The program is financed through the Aviation Insurance Revolving Fund, which is supported by premiums paid for coverage (for "premium insurance"), one-time binder fees paid by the airlines (for "nonpremium insurance"), and interest on investments in U.S. Treasury securities. According to the FAA, from 1959 through June 1998, the fund accumulated about $69 million in revenues and paid out a total of $151,000 in claims. New receipts from airlines total less than $500,000 a year.

Nonpremium insurance, which accounts for about 99 percent of all aviation insurance, is for U.S. airlines that are providing contract services for federal agencies that have indemnification agreements with the Department of Transportation (DOT). Currently, only the Department of Defense (DoD) and the State Department have such agreements with DOT. In the event of a loss, DoD and the State Department would reimburse the FAA for the insurance claims it would have to pay the airlines. Since 1975, there have been approximately 5,400 flights covered by the program.

Premium insurance is provided to U.S. or foreign airlines for regularly scheduled commercial or charter service. Airlines pay a premium to FAA for the coverage, similar to a commercial insurance policy. Both types of insurance policies cover hull loss and liability.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

H.R. 4058 would extend the authorization for the FAA's aviation insurance program through December 31, 2003. Under current law, the program will end on December 31, 1998. Enacting the bill could affect federal spending if new claims occur from extending the insurance program. Moreover, such new spending could be very large, particularly if a claim exceeded the balance of the trust fund and the FAA had to seek a supplemental appropriation. But historical experience suggests that claims under this program are very rare; therefore, extending the aviation insurance program would probably have no significant impact on the federal budget over the next five years.

H.R. 4058 would also make clear that an insured party could purchase an additional insurance policy from a third party under which the third party would, in the event of a claim, reimburse the insured party immediately and then seek reimbursement from the federal government. Such a contract would allow parties insured under the aviation insurance program to be assured of immediate reimbursement for any claims. According to the FAA, this provision clarifies what is already authorized under current law. Enacting this provision could affect federal spending if the clarification made the aviation insurance program more appealing to carriers and thereby increased the number of insured flights—and potential claims—under the program. CBO expects, however, that there would be no significant budgetary effect over the next five years.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act specifies pay-as-you-go procedures for legislation affecting direct spending or receipts. Enacting H.R. 4058 could increase direct spending, but the effect is not likely to be significant over the next five years, assuming that claims made under the aviation insurance program continue to be very rare.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4058 contains no intergovernmental or private-sector mandates as defined in UMRA and would have no impact on the budgets of state, local, or tribal governments.

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