



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 10, 2000

H.R. 2674

Palmetto Bend Conveyance Act

As ordered reported by the House Committee on Resources on July 26, 2000

SUMMARY

H.R. 2674 would direct the Secretary of the Interior to convey the Palmetto Bend Reclamation Project to the Texas Water Development Board and the Lavaca-Navidad River Authority (or to just the latter, if it acquires the interests of the former). As a condition of the conveyance, H.R. 2674 would require the buyers to pay the net present value of the repayment obligation of the project. This money would be deposited in the Reclamation Fund. The bill specifies the discount and interest rates that must be used to calculate the net present value of the repayment obligation. The buyers would also have to agree to manage the project for its original purposes, which include providing water for both municipal and industrial users, conserving and developing fish and wildlife resources, and enhancing recreational opportunities. Once the project is conveyed, the Bureau of Reclamation would no longer pay for the operation and maintenance of the project.

CBO estimates that enacting H.R. 2674 would result in a net decrease in direct spending of \$34 million over the 2001-2005 period. Estimated receipts of \$51 million would provide savings in 2001, but those savings would be offset by the loss of offsetting receipts of about \$4 million a year over the 35-year period from 2001 through 2035. Because enacting H.R. 2674 would affect direct spending, pay-as-you-go procedures would apply. CBO estimates that implementing this bill would have no significant effect on discretionary spending.

H.R. 2674 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Certain local entities in the state of Texas probably would incur some costs as a result of the bill's enactment, but those costs would be voluntary.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2674 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and the environment).

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	-48	3	3	4	4
Estimated Outlays	0	-48	3	3	4	4

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 2674 will be enacted by the end of fiscal year 2000. We expect that any repayment obligations due in fiscal year 2000 will be paid and that the project will be conveyed in fiscal year 2001.

CBO estimates that enacting H.R. 2674 would reduce direct spending by \$34 million over the 2001-2005 period, but would have very little net budgetary impact—on a present value basis—over the life of the Palmetto project. As a condition of conveyance, H.R. 2674 would require the buyers to pay the net present value of the repayment obligation on the project, using a discount rate based on the average interest rate on 30-year U.S. Treasury bonds in the month preceding the sale. CBO estimates that the buyers would pay \$51 million in 2001 for the project, based on an estimated future repayment obligation of \$72 million and a discount rate of 6.6 percent. Once conveyed, the government would forgo payments of roughly \$4 million a year for the next 35 years.

Based on information from the Bureau of Reclamation, CBO estimates that the agency currently spends less than \$500,000 each year for the operation and maintenance of the project. Hence, we estimate that any discretionary savings from the conveyance would not be significant. Likewise, implementing this bill would change the timing of deposits to the Reclamation Fund, but CBO expects that such changes would have a negligible effect on discretionary spending.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing such procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	0	-48	3	3	4	4	4	4	4	4	4
Changes in receipts											

Under the Balanced Budget Act (BBA), proceeds from nonroutine asset sales (sales that are not authorized under current law) may be counted for pay-as-you-go purposes only if the sale would entail no financial cost to the government. CBO estimates that the sale of the Palmetto Bend Project as specified in H.R. 2674 would satisfy the conditions in the BBA, and therefore, the proceeds would count for pay-as-you-go purposes.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2674 contains no intergovernmental or private-sector mandates as defined in UMRA. The conveyance authorized by this bill would be voluntary on the part of the Texas Water Development Board and the Lavaca-Navidad River Authority, and any costs they would incur to meet the conditions imposed by the bill also would be voluntary. In order to acquire the Palmetto Bend Reclamation Project, the Texas Water Development Board and the Lavaca-Navidad River Authority would have to pay the present value of their outstanding obligation to the United States and certain transaction costs. One or both of these entities also would have to assume responsibility for operating and maintaining the project.

PREVIOUS CBO ESTIMATE

On June 27, 2000, CBO transmitted a cost estimate for S. 1474, the Palmetto Bend Conveyance Act, as ordered reported by the Senate Committee on Energy and Natural Resources on June 7, 2000. The bills are nearly identical, and their estimated costs are the same.

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