CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 17, 2000

H.R. 4419
Internet Gambling Funding Prohibition Act

As ordered reported by the House Committee on Banking and Financial Services on June 28, 2000

SUMMARY

H.R. 4419 would prohibit gambling businesses from accepting credit cards and other bank instruments from gamblers who illegally bet over the Internet. The bill also would authorize the agencies that regulate insured depository institutions to issue cease-and-desist orders against institutions that knowingly facilitate Internet gambling. The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the National Credit Union Administration (NCUA) would enforce the provisions of H.R. 4419 as they apply to financial institutions.

CBO estimates that implementing this legislation would result in no significant cost to the federal government. Because enactment of H.R. 4419 could affect direct spending and receipts, pay-as-you-go procedures would apply to the bill. However, CBO estimates that any impact on direct spending and receipts would not be significant.

Although H.R. 4419 would prohibit gambling businesses from accepting credit card payments and other bank instruments from gamblers who bet illegally over the Internet, the bill would not create a new intergovernmental or private-sector mandate. Under current federal and state law, gambling businesses are generally prohibited from accepting bets or wagers over the Internet. Thus, H.R. 4419 does not contain a new mandate relative to current law.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that the government would incur no significant costs to implement H.R. 4419.

BASIS OF ESTIMATE

CBO estimates that implementing H.R. 4419 would increase administrative costs of the Department of Justice and the NCUA, but any such costs would be negligible. The bill also would have a small effect on the operating costs of the FDIC and the Federal Reserve System. Finally, the bill would have a negligible effect on the collection and spending of criminal penalties.

Spending Subject to Appropriation

Because H.R. 4419 would establish a new federal crime relating to Internet gambling, the federal government would be able to pursue cases that it otherwise would not be able to prosecute. CBO expects, however, that most cases would be pursued under state law. Therefore, we estimate that any increase in federal costs for law enforcement, court proceedings, or prison operations would not be significant. Any such additional costs would be subject to the availability of appropriated funds.

H.R. 4419 would require the Department of Justice to submit an annual report on deliberations with other countries on issues related to Internet gambling. CBO estimates that preparing and completing the report would cost less than $100,000 a year, subject to the availability of appropriated funds.

Because we expect few cease-and-desist orders would be issued, CBO estimates that implementing H.R. 4419 would increase the costs of the NCUA by less than $200,000 a year over the 2001-2005 period.

Direct Spending and Revenues

Both the OTS and the OCC charge fees to cover all their administrative costs; therefore, any additional spending by these agencies to implement the bill would have no net budgetary effect. That is not the case with the FDIC, however, which uses deposit insurance premiums paid by all banks to cover the expenses it incurs to supervise state-chartered banks.

The bill would cause a small increase in FDIC spending, but would not affect its premium income. In total, CBO estimates that H.R. 4419 would increase direct spending and offsetting receipts of the OTS, OCC, and FCC by less than $500,000 a year over the 2001-2005 period.

Budgetary effects on the Federal Reserve are recorded as changes in revenues (governmental receipts). Based on information from the Federal Reserve, CBO estimates that enacting H.R. 4419 would reduce such revenues by less than $500,000 a year over the 2001-2005 period.

Because those prosecuted and convicted under the bill could be subject to criminal fines, the federal government might collect additional fines if the bill is enacted. Collections of such fines are recorded in the budget as governmental receipts (i.e., revenues), which are deposited in the Crime Victims Fund and spent in subsequent years. Any additional collections are likely to be negligible because of the small number of cases involved. Because any increase in direct spending would equal the amount of fines collected (with a lag of one year or more), the additional direct spending also would be negligible.

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. Enacting H.R. 4419 could affect both direct spending and receipts, but CBO estimates that any such effects would be negligible.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Although H.R. 4419 would prohibit gambling businesses from accepting credit card payments and other bank instruments from gamblers who bet illegally over the Internet, the bill would not create a new intergovernmental mandate. Under current federal and state law, gambling businesses are generally prohibited from accepting bets or wagers over the Internet. Thus, H.R. 4419 does not contain a new mandate relative to current law.

H.R. 4419 would authorize federal banking regulators to require depository institutions that have knowingly participated in transactions with unlawful Internet gambling businesses to cease doing so. This provision would not create a new private-sector mandate for depository institutions because federal banking regulators already have such powers under current law.

PREVIOUS CBO ESTIMATE

CBO estimated the costs of two other bills related to Internet gambling. On May 1, 2000, CBO transmitted a cost estimate for H.R. 3125, the Internet Gambling Prohibition Act of 2000, as ordered reported by the House Committee on the Judiciary on April 6, 2000. On July 15, 1999, CBO transmitted a cost estimate for S. 692, the Internet Gambling Prohibition

Act of 1999, as reported by the Senate Committee on the Judiciary on June 17, 1999. Both bills would prohibit gambling conducted over the Internet, and neither bill would result in any significant cost to the federal government.

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