



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 11, 2000

### **S. 2580**

### **Indian School Construction Act**

*As ordered reported by the Senate Committee on Indian Affairs on September 27, 2000*

#### **SUMMARY**

S. 2580 would authorize Indian tribes to issue qualified tribal school modernization bonds, which would carry a new federal income tax credit. The bill also would authorize the Secretary of the Interior to establish a \$30-million escrow account, the funds from which would be used to provide certain tribes with enough collateral to issue these bonds. That funding would augment existing education spending by the Bureau of Indian Affairs (BIA).

CBO estimates that implementing S. 2580 would cost \$30 million over the 2001-2005 period, assuming appropriation of the authorized amount. The bill also would reduce federal revenues (i.e., governmental receipts) by about \$28 million over the same period and by \$111 million through 2010. Because the bill would affect receipts, pay-as-you-go procedures would apply.

S. 2580 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.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of S. 2580 is shown in the following table. The costs of this legislation fall within budget function 500 (education, training, employment, and social services).

#### **BASIS OF ESTIMATE**

For this estimate, CBO assumes that S. 2580 will be enacted in October 2000, and that the authorized amounts will be appropriated at that time.

	By Fiscal Year, in Millions of Dollars				
	2001	2002	2003	2004	2005
<b>SPENDING SUBJECT TO APPROPRIATION</b>					
BIA Education Spending Under Current Law					
Estimated Authorization Level <sup>a</sup>	585	599	614	625	644
Estimated Outlays	548	591	605	620	635
Proposed Changes					
Authorization Level	30	0	0	0	0
Estimated Outlays	7	12	11	0	0
BIA Education Spending Under S. 2580					
Estimated Authorization Level	615	599	614	629	644
Estimated Outlays	555	603	616	620	635
<b>CHANGES IN REVENUES</b>					
Qualified Tribal School Modernization Bonds					
Estimated Revenues	*	-2	-4	-9	-13

a. The amounts shown are CBO baseline projections, assuming annual increases for anticipated inflation. The 2000 appropriation for BIA education programs was \$570 million.

\* = Less than \$500,000.

S. 2580 would authorize the Secretary of the Interior to allow qualified Indian tribes to issue new school construction bonds that would receive favorable federal income tax treatment. Tribes could issue these bonds, up to a total of \$200 million a year in both calendar years 2001 and 2002, only if they are able to establish trust agreements with approved banks or trust companies. These trust agreements would specify that the trustee would hold accounts for the tribes and would handle all the proceeds from the bond issue, payments to bond holders, investment of the funds that the tribes would deposit into the account (including any grants from the Secretary for this purpose), and earnings on the fund balances. Deposits by (or on behalf of) the tribes would have to be sufficient, along with earnings on the funds, to repay the principal on the bonds. No principal payments would be required until a bond matured, which in no case would be later than 15 years after the issuance date. Tribes would not be responsible for any interest payments on the bonds; instead the federal government would provide a tax credit equal to the quarterly interest payments that would have been paid if the bonds earned interest at the corporate bond rate. In addition, tribes would not be required to make any additional deposits in the trusteed account if the balances are insufficient when the principal payments are due.

## **Spending Subject to Appropriation**

S. 2580 would authorize the Secretary, subject to the availability of appropriated funds, to establish a pilot program that would provide grants to certain tribes to provide the funds through which the tribes could ensure the repayment of the principal of the bonds that they issue. The Secretary could deposit not more than \$30 million into a tribal school modernization escrow account. Projects that would be funded through the account would be based upon the priorities list described in the *Education Facilities Replacement Construction Priorities List*, published January 31, 2000, in the Federal Register or any subsequent such priorities list. In addition, other school construction projects that meet the criteria described in *Instructions and Application for Replacement Schools, Revision 6*, dated February 6, 1999, could qualify. The escrow funds could be used for advanced planning, design, and construction for the replacement of tribal schools. Monies used for planning and designed activities would have to be repaid out of the proceeds of the bond sales.

Based on discussions with BIA and Treasury staff as well as a bond specialist, CBO estimates that the \$30 million in escrow funds would assist tribes in issuing approximately \$70 million of the \$400 million in new bonds authorized by the bill, and that the advanced planning and design costs would average \$750,000 per school. CBO assumes that five tribal schools would receive full or partial funding for construction costs from the escrow account. At least one tribe is currently using private funds to finance the planning and design process, and might be ready to issue modernization bonds during 2001. For that school, CBO assumes that the tribe would not receive the escrow money for planning and design purposes, but would receive \$6 million for the repayment of principal owed by the tribe. We expect four additional tribes would request and receive distributions from the escrow fund for school planning and design, totaling \$1 million in 2001 and \$2 million in 2002. We expect these tribes to have successful bond issues in 2002 and 2003—two issues each year—with additional grants of \$5.25 million to each tribe. Thus, CBO estimates that net distributions from the new tribal school account would be \$7 million in 2001, \$12 million in 2002, and \$11 million in 2003.

## **Revenues**

S. 2580 would create a new income tax credit for qualified tribal school modernization bonds. The bill authorizes \$200 million in bond authority each year in calendar years 2001 and 2002, and any unused authority may be carried over in the following years. The Joint Committee on Taxation estimates these bonds would reduce federal revenues by \$28 million over the 2001-2005 period and \$111 million during the 10-year period ending in 2010.

## **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 receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the four following years are counted.

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	By Fiscal Year, in Millions of Dollars									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays					Not applicable					
Changes in receipts	0	-2	-4	-9	-13	-16	-17	-17	-17	-17

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## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

S. 2580 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments. Enacting this legislation would benefit those Indian tribes that would be eligible to issue school modernization bonds. Any costs incurred by these tribes to meet the conditions established in the bill would be voluntary.

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