



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

September 12, 2002

**S. 1028
Blunt Reservoir and Pierre Canal Land Conveyance Act of 2002**

*As reported by the Senate Committee on Energy and Natural Resources
on September 9, 2002*

SUMMARY

S. 1028 would direct the Secretary of the Interior to transfer title to the lands and facilities that make up the nonpreferential lease parcels and unleased parcels of the Blunt Reservoir and Pierre Canal in South Dakota to the state. During the five years following enactment, S. 1028 would allow any preferential leaseholder to purchase the parcel that is the subject of their lease for cash or on an installment basis. After five years, the bill would direct the Secretary to transfer any remaining parcels to South Dakota. S. 1028 would authorize the appropriation of \$750,000 to implement those provisions. The bill also would authorize the appropriation of payments to South Dakota equal to the amount of any proceeds from sales to leaseholders.

Assuming appropriation of the authorized amounts, CBO estimates that implementing S. 1028 would cost about \$1.2 million in 2003 and negligible amounts in subsequent years. Because enacting S. 1028 would affect direct spending, pay-as-you-go procedures would apply, but CBO estimates that the impact would be about \$100,000.

S. 1028 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill would benefit the state of South Dakota, and any costs would be incurred voluntarily.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

Subject to the appropriation of the authorized amounts, CBO estimates that implementing S. 1028 would cost \$1.2 million in 2003 and insignificant amounts in subsequent years. CBO estimates that enactment of the bill would increase offsetting receipts by about \$500,000 in 2003 from land sales and would increase direct spending by about \$100,000 in

2003 for loan subsidies for the installment purchases of certain land parcels in the affected area. Thus, enactment of the bill would reduce direct spending by about \$400,000.

Spending Subject to Appropriation

S. 1028 would direct the Secretary of the Interior to transfer title to the lands and facilities that make up the nonpreferential lease parcels and unleased parcels of the Blunt Reservoir and Pierre Canal to South Dakota. During the five years following enactment, S. 1028 would allow any preferential leaseholder to purchase the parcel that is the subject of their lease. After such time has expired, the bill would direct the Secretary to transfer any remaining preferential lease parcels to the state. S. 1028 would authorize the appropriation of \$750,000 to implement those provisions.

The bill also would authorize the appropriation of federal proceeds to South Dakota from sales to leaseholders. We estimate that by selling parcels to preferential leaseholders, the federal government would collect nearly \$500,000 in 2003 and smaller amounts in each of the next four years. Thus, subsequent appropriations of that amount to South Dakota would cost about \$500,000 in 2003.

Direct Spending

To purchase their leased lands under the bill, preferential leaseholders would pay the value of such lands appraised for agricultural purposes only (i.e., not including recreational value). The bill would allow leaseholders to pay 10 percent less than the appraised value if they pay up front in a lump sum. The bill also would allow those leaseholders whose parcels are valued above \$10,000 to pay in installments over 30 years with an annual interest rate of 3 percent. Based on information from the Bureau of Reclamation, we expect that over the five-year period nearly 30 leaseholders would purchase the parcels valued at less than \$10,000. We estimate that the government would receive about \$30,000 a year from such sales.

Because of the favorable terms under the bill, we expect that all 17 of the leaseholders with parcels valued above \$10,000 would purchase those parcels on an installment basis. Based on information from the Bureau of Reclamation, CBO estimates that the government would collect about \$450,000 from the sale of these more-valuable leases in 2003.

The Federal Credit Reform Act of 1990 requires that agencies record the subsidy cost of financing arrangements in the year the assets are sold if payment is deferred for more than 90 days. In effect, S. 1028 would allow the Secretary to issue direct loans to the 17 leaseholders with parcels valued about \$10,000. Based on the experience of similar loan

programs within the Department of Agriculture, CBO expects that very few purchasers would default on their payments. Because the purchasers would pay annual interest of 3 percent, however, CBO estimates that the loans under S. 1028 would have a subsidy cost of about \$100,000, or 25 percent of the purchase price. Under credit reform procedures, this cost would be recorded in 2003.

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. CBO estimates that enacting S. 1028 would reduce net direct spending by about \$400,000 in 2003. However, 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. Under current law, the costs of administering leased lands nearly offset the receipts received from lessors. CBO estimates that S. 1028's costs of transferring the real estate, providing loans to leaseholders, and providing grants to South Dakota would exceed the value of lease sales—\$500,000 expected in 2003. Consequently, the receipts received from proceeds under S. 1028 would not count for pay-as-you-go purposes. The estimated cost of the credit subsidy—\$100,000—would be considered a pay-as-you-go cost.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1028 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would benefit the state of South Dakota, and any costs would be incurred voluntarily.

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