CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 22, 2003

H.R. 2143
Unlawful Internet Gambling Funding Prohibition Act

As ordered reported by the House Committee on Financial Services on May 20, 2003

SUMMARY

H.R. 2143 would require financial institutions to take steps to identify and block gambling-related transactions that are transmitted through their payment systems. 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. 2143 as they apply to financial institutions.

CBO estimates that implementing this legislation would result in no significant cost to the federal government. By increasing the costs of the FDIC and the Federal Reserve, the bill could affect direct spending and revenues, but CBO estimates that any such impacts would not be significant.

H.R. 2143 would create no new intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

The bill would impose a private-sector mandate, but CBO estimates that the direct costs of the mandate would fall well below the annual threshold established in UMRA ($117 million in 2003, adjusted annually for inflation) in any of the next five years.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

Based on information from the affected agencies, CBO estimates that the cost of implementing H.R. 2143 would be small, and thus, that the bill would have no significant net effect on the federal budget. The NCUA, the OTS, and the OCC charge fees to cover all their administrative costs; therefore, any additional spending by those agencies to implement the bill would have no net budgetary effect. The FDIC uses deposit insurance premiums paid by banks to cover the expenses it incurs to supervise state-chartered institutions. Under current law, CBO estimates that the vast majority of thrift institutions insured by the FDIC would not pay any premiums for most of the 2004-2013 period, and we expect that a small increase in FDIC spending would not trigger a significant change in its premium income over this period. In total, CBO estimates that H.R. 2143 would increase direct spending and offsetting receipts of the NCUA, OTS, OCC, and FDIC by less than $500,000 a year over the 2004-2013 period.

The bill also would affect spending by the Federal Reserve. 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. 2143 would reduce such revenues by less than $500,000 a year.

ESTIMATED IMPACT ON STATE AND LOCAL GOVERNMENTS

Although H.R. 2143 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 as defined in UMRA. Under current federal and state law, gambling businesses are generally prohibited from accepting bets or wagers over the Internet. Thus, H.R. 2143 does not contain a new mandate relative to current law and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 2143 would impose a new federal mandate on the private sector. The bill would require designated payment systems to establish policies and procedures designed to identify and prevent transactions in connection with unlawful Internet gambling. Designated payment systems are defined in the bill to include any system utilized by businesses such as creditor, credit card issuers, or financial institutions to effect a credit transaction, an electronic fund transfer, or other transfer of funds. Information provided by representatives of the financial services industry indicates that such transactions can currently be identified through the use of codes. Most financial institutions are currently able to identify and block restricted transactions by using the coding system. Thus, CBO estimates that the private sector's cost to comply with the mandate would be small. CBO estimates that the total direct costs for the private-sector mandate in this bill would fall well below the annual threshold established in UMRA ($117 million in 2003, adjusted annually for inflation).

PREVIOUS CBO ESTIMATES

On May 15, 2003, CBO transmitted a cost estimate for H.R. 21, the Unlawful Internet Gambling Funding Prohibition Act, as ordered reported by the House Committee on Financial Services on March 27, 2003**.** On May 16, 2003, CBO transmitted a cost estimate for H.R. 21 as ordered reported by the House Committee on the Judiciary on May 14, 2003. The two versions of H.R. 21 are similar to H.R. 2143, and the cost estimates of those provisions that affect the FDIC and the Federal Reserve are identical.

The private-sector mandate in H.R. 2143 is also continued in both versions of H.R. 21. Our estimate that the total direct costs of this mandate would fall well below the annual threshold for private-sector mandates established in UMRA is unchanged.

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