CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 31, 2003

S. 1262

Maritime Administration Authorization Act of 2003

As ordered reported by the Senate Committee on Commerce, Science, and Transportation on June 26, 2003

SUMMARY

S. 1262 would provide a multiyear authorization for the Maritime Administration (MARAD). In addition to amounts authorized under current law, S. 1262 would authorize the appropriation of $1.4 billion over the 2004-2008 period and $1.3 billion over the 2009-2015 period. (Another $280 million is authorized for fiscal years 2004 through 2008 for maritime loan guarantees that are already authorized under existing law.)

CBO estimates that implementing S. 1262 would cost $95 million in fiscal year 2004 and $1.3 billion over the 2004-2008 period. (About $1.4 billion would be spent after 2008, including the $1.3 billion that would be authorized for fiscal years 2009 through 2015.) Enacting S. 1262 would increase direct spending by $1 million in 2004 because it would allow MARAD to spend certain funds collected for damages. Under the bill, direct spending of other types of damage awards could increase in later years as well, but by less than $500,000 a year.

The bill would authorize MARAD to insure more foreign flag vessels against war risks if those vessels are supporting United States alliances with other nations. CBO has no basis for estimating the net budget impact of this provision.

S. 1262 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 effects of S. 1262 are summarized in the following table. The costs of this legislation fall within budget functions 050 (national defense) and 400 (transportation).

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
SPENDING SUBJECT TO APPROPRIATION						
MARAD Spending for Operations and Operating Subsidies Under Current Law						
Authorization Level[a, b]	201	100	100	0	0	0
Estimated Outlays	195	119	105	8	0	0
Proposed Changes:						
MARAD Operations						
Authorization Level[b]	0	115	117	120	123	125
Estimated Outlays	0	95	112	119	123	125
Maritime Subsidies						
Authorization Level[b]	0	0	0	436	186	186
Estimated Outlays	0	0	0	234	248	248
MARAD Spending for Operations, Operating and Construction Subsidies Under S. 1262						
Authorization Level	201	215	217	556	309	311
Estimated Outlays	195	214	217	361	371	373
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	1	*	*	*	*
Estimated Outlays	0	1	*	*	*	*

NOTES: * = Less than $500,000.

a. The 2003 level is the amount appropriated for that year for MARAD operations and maritime operating subsidies. In 2004 and 2005, $100 million is authorized to be appropriated for maritime operating subsidies under existing law.

b. These figures exclude the bill's authorization of $56 million a year for maritime loan guarantees and associated administrative costs because those activities are already authorized (in an indefinite amount) under existing law and do not require annual authorization.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the amounts authorized will be appropriated for each year. Estimated outlays are based on historical spending patterns for existing or similar programs. Estimated outlays for tanker construction subsidies are based on information provided by MARAD.

Spending Subject to Appropriation

The proposed changes in the table for title I include between $115 million and $125 million annually in authorizations for MARAD operations. Those amounts exclude $56 million annually for maritime loan guarantees and administrative costs because appropriations for that program are already authorized under existing law.

Beginning in 2006, the table shows new authorizations proposed for maritime subsidies under title II. These authorizations include $186 million annually through fiscal year 2015 for MARAD's maritime security program (MSP), which expires at the end of fiscal year 2005. The MSP provides operating subsidies to owners or operators of U.S. flag vessels that carry cargo between the United States and foreign ports. The bill would expand the MSP to subsidize 60 ships at a cost of $3.1 million a year per vessel. (The existing program subsidizes 47 vessels at a cost of $2.1 million a year per vessel.)

Title II would also authorize MARAD to provide subsidies totaling $250 million for the construction of five commercial product tankers in a U.S. shipyard after fiscal year 2004. Shipping companies that enter into construction subsidy agreements also would be eligible for MSP payments starting in 2006 for existing (but otherwise ineligible) tankers. Based on information provided by MARAD, CBO expects that all such agreements would be executed at one time—but not until the amended MSP eligibility requirements become effective after fiscal year 2005. Consequently, this estimate assumes appropriation of the $250 million for fiscal year 2006 and spending of those sums over the 2006-2009 period.

Direct Spending

S. 1262 would allow MARAD to spend nearly $1 million received from a settlement for damages from a fire at the Merchant Marine Academy. The bill also would allow the agency to spend damages recovered on accidents that may occur involving vessels of the National Defense Reserve Fleet. CBO estimates that enacting those changes would increase direct spending by $1 million in fiscal year 2004 and by less than $500,000 a year thereafter.

The bill would expand the authority of MARAD, acting on behalf of the Department of Defense (DoD), to insure foreign vessels under the agency's war-risk insurance program. This provision would allow DoD to participate in international risk-sharing arrangements that would cover vessels that support operations of alliances such as the North Atlantic Treaty Organization, regardless of the ships' registration or ownership.

The effects of this provision are uncertain. On the one hand, entering such agreements could make the federal government liable for a share of any damages sustained by foreign vessels, some of which the federal government might not have been able to insure under existing authority. On the other hand, such agreements could allow the government to share its risk of damage on some vessels for which it would normally bear all such risk. In the 50-year history of the existing war-risk insurance program, MARAD has never paid any claim against the United States involving vessels damaged in hostile actions. Based on this experience, CBO expects that providing DOD with authority to share such risks with other countries in the future would not lead to significant savings. CBO has no information on the experience of war-risk insurance programs administered by other NATO members. In the absence of such information, CBO has no basis for determining the cost of absorbing some of the risks of those programs.

The bill would allow MARAD to charge fees to applicants for maritime loan guarantees in order to recover the costs of hiring independent contractors to assess certain applications. The agency would be able to spend any amounts collected. Based on information provided by MARAD, CBO estimates that amounts collected and spent as a result of this provision would be less than $500,000 and would offset each other.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1262 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On May 16, 2003, CBO transmitted a cost estimate for H.R. 1588, the National Defense Authorization Act for Fiscal Year 2004, as ordered reported by the House Committee on Armed Services on May 14, 2003. S. 1262 contains provisions very similar to those of title XXXV of H.R. 1588. H.R. 1588 and S. 1262 would authorize different funding levels for MARAD activities, and the CBO estimates reflect the higher authorization levels in S. 1262.

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