



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 6, 2004

S. 2275

High Risk Nonprofit Security Enhancement Act of 2004

As ordered reported by the Senate Committee on Governmental Affairs on July 21, 2004

SUMMARY

Assuming appropriation of the necessary amounts, CBO estimates that implementing S. 2275 would cost \$504 million over the 2005-2009 period. Enacting this bill would not affect direct spending or revenues.

S. 2275 would authorize the Department of Homeland Security (DHS) to contract with appropriate companies to improve security at those 501(c)3 nonprofit organizations that are determined to be most vulnerable to potential terrorist attacks. In addition, the bill would establish a new loan guarantee program for all nonprofit organizations that might need additional security enhancements to protect them from terrorist attacks. The bill also would establish a grant program for local law enforcement agencies to offset costs associated with increased security in areas with a high concentration of nonprofit organizations. Finally, the bill would establish a new Office of Community Relations and Civic Affairs to administer the new security program for nonprofit organizations, among other duties.

S. 2275 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates the cost for state governments to comply with that mandate would be well below the threshold established in that act (\$60 million in 2004, adjusted annually for inflation). State and local law enforcement agencies would benefit from the assistance grants authorized by the bill; any costs to those governments in connection with those grants would be incurred voluntarily. The bill contains no new private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2275 is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development)

	By Fiscal Year, in Millions of Dollars				
	2005	2006	2007	2008	2009
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Security Contracts for Nonprofit Organizations ^a					
Estimated Authorization Level	100	100	100	0	0
Estimated Outlays	25	75	100	75	25
Loan Guarantees for Nonprofit Organizations					
Estimated Authorization Level	13	13	13	0	0
Estimated Outlays	3	10	13	10	3
Law Enforcement Grants ^a					
Estimated Authorization Level	50	50	50	0	0
Estimated Outlays	12	38	50	38	12
Office of Community Relations and Civic Affairs ^a					
Estimated Authorization Level	5	5	5	0	0
Estimated Outlays	5	5	5	0	0
Total Changes					
Estimated Authorization Level	168	168	168	0	0
Estimated Outlays	45	128	168	123	40

a. The 2006 and 2007 levels assume these programs continue at the bill's specific authorization level for 2005.

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 2275 will be enacted near the end of fiscal year 2004 and that the necessary amounts will be appropriated in each year starting in 2005. CBO estimates that implementing S. 2275 would cost \$504 million over the 2005-2009 period.

Security Contracts for Nonprofit Organizations

S. 2275 would authorize the DHS to contract with appropriate companies to improve security at those 501(c)3 nonprofit organizations that are determined to be most vulnerable to potential terrorist attacks. S. 2275 would authorize the appropriation of \$100 million in 2005 and such sums as are necessary in 2006 and 2007 for such contracts. For this estimate, CBO assumes that amounts authorized to be appropriated in 2006 and 2007 would be equal to the 2005 authorization level. Assuming appropriation of the authorized funds, CBO estimates that entering into security enhancement contracts would cost \$300 million over the 2005-2009 period.

Loan Guarantees for Nonprofit Organizations

This legislation also would establish a new loan guarantee program to improve security at nonprofit organizations. Under this new loan guarantee program, the federal government would insure loans, with at least a 25-year repayment term, made to nonprofits to support physical security enhancements or to provide related training to employees. The legislation would not require any guarantee fees to be charged to the nonprofits and would not limit the percentage of the loan that would be insured by the federal government. Consequently, CBO assumes that DHS would insure up to 100 percent of the loan value and that the borrower would not be charged any guarantee fees.

This legislation would authorize the appropriation of whatever amounts are necessary for the cost of loan guarantees over the 2005-2007 period and would authorize a \$250 million limitation on the cumulative value of the loans that may be guaranteed for each fiscal year. The new loan program would be considered a discretionary federal credit program and would require appropriation action to establish this loan limitation and to provide a credit subsidy for the cost of such loan guarantees.

Based on information from various nonprofit organizations, CBO assumes that nonprofit organizations face financial risks similar to those of small businesses. Using the Small Business Administration's 7(a) general business loan program as a guide, CBO assumes that, like small businesses, the default rate for loans made to nonprofit organizations would be about 10 percent and that recoveries on such losses would be about 50 percent. Using those assumptions, CBO estimates that the subsidy rate for the new loan guarantee program would be about 5 percent, and that establishing this program would cost \$39 million over the next five years, assuming appropriation of the necessary amounts. (The 7(a) program has a smaller net subsidy because it includes up-front fees that offset some of the default costs.)

Law Enforcement Grants

S. 2275 would authorize DHS to provide grants to local law enforcement agencies in areas where there is a high concentration of nonprofit organizations. These grants would pay for increased costs associated with protecting such organizations. S. 2275 would authorize the appropriation of \$50 million in 2005 and such sums as is necessary in 2006 and 2007 for these grants. For this estimate, CBO assumes that the amount authorized to be appropriated in 2006 and 2007 would be equal to the 2005 authorization level. Assuming appropriation of the authorized funds, CBO estimates that providing these grants would cost \$150 million over the 2005-2009 period.

Office of Community Relations and Civic Affairs

This bill would establish a new office within DHS to administer the new security enhancement program for nonprofit organizations. In addition, the office would coordinate community relations efforts for the department, serve as the liaison to nonprofit, social services, and faith-based organizations, and assist in coordinating the needs of communities for the department's Citizen Corps program. S. 2275 would authorize the appropriation of \$5 million in 2005 and such sums as necessary in 2006 and 2007 for this office. For this estimate, CBO assumes that amounts authorized to be appropriated in 2006 and 2007 would be equal to the 2005 authorization level. Assuming appropriation of the authorized funds, CBO estimates that this new office would cost \$15 million over the 2005-2009 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2275 contains an intergovernmental mandate as defined in UMRA because it would require state agencies to receive and evaluate applications from nonprofit organizations for security assistance. No funds are authorized for those administrative tasks. According to state government representatives, the administrative costs for assistance programs are typically 3 to 5 percent of the monetary value of the assistance provided. Based on that information, CBO estimates that the cost for state governments to comply with that mandate would be less than \$5 million annually, well below the threshold established in UMRA (\$60 million in 2004, adjusted annually for inflation).

State and local law enforcement agencies would benefit from a new grant program for the incremental costs of providing services to certain high-risk nonprofit organizations. Assuming appropriation of the authorized funds, CBO estimates that state and local law enforcement agencies would receive \$150 million over the next five years; any costs of participating in the grant program would be incurred voluntarily.

S. 2275 contains no new private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATES

On June 21, 2004, CBO transmitted a cost estimate for H.R. 3266, the Faster and Smarter Funding for First Responders Act of 2004, as ordered reported by the House Committee on the Judiciary on June 16, 2004. In addition to grants for first responders, H.R. 3266 also includes the provisions concerning nonprofit organizations that are in S. 2275. The estimated

federal costs of these provisions are the same. CBO has determined that, unlike H.R. 3266, S. 2275 contains an intergovernmental mandate.

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