CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 3, 2003

S. 426
Blunt Reservoir and Pierre Canal Land Conveyance Act of 2003

As reported by the Senate Committee on Energy and Natural Resources on February 26, 2003

SUMMARY

S. 426 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. 426 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. 426 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. 426 would cost about $1.2 million in 2004 and negligible amounts in subsequent years. For Congressional scorekeeping purposes, CBO estimates that enacting S. 426 would increase direct spending by about $100,000 in 2004. Enacting the bill would also lead to about $450,000 in collections from asset sales, but those proceeds would not count for purposes of Congressional scorekeeping because completing the asset sales would ultimately result in a net cost to the federal government.

S. 426 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. 426 would cost $1.2 million in 2004 and insignificant amounts in subsequent years. CBO estimates that enactment of the bill would increase offsetting receipts by about $500,000 in 2004 from land sales and would increase direct spending by about $100,000 in 2004 for loan subsidies for the installment purchases of certain land parcels in the affected area.

Spending Subject to Appropriation

S. 426 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. 426 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. 426 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 2004 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 2004.

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 those more-valuable leases in 2004. However, those proceeds would not count for Congressional scorekeeping purposes because CBO estimates that the sales would result in a net cost to the government (on a present-value basis). Scorekeeping guideline #15 states that if an asset sale would result in a net financial cost to the government, the proceeds from such a sale "shall not be scored" under the Congressional Budget Act.

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. 426 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. 426 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 2004.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 426 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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