CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 15, 2005

H.R. 1412

Delaware River Protection Act of 2005

As ordered reported by the House Committee on Transportation and Infrastructure on April 27, 2005

SUMMARY

H.R. 1412 would address oil spills from tank vessels (tankers and tanker barges) into United States waters. The bill would amend the Oil Pollution Act of 1990 (OPA) to raise the statutory limits on liability that owners or operators of such vessels face when a spill occurs. The bill also would authorize the appropriation of $16 million to the U.S. Coast Guard and the National Oceanic and Atmospheric Administration (NOAA) over the next five years, primarily for activities to detect and remove submerged oil in navigable waters. Finally, the bill would address a recent oil spill into the Delaware River by requiring new oil spill contingency plans for the Philadelphia area and by establishing an advisory committee to recommend improvements in oil spill response and prevention in the Delaware River and Bay.

CBO estimates that the higher liability limits that would be mandated by H.R. 1412 would reduce direct spending from the Oil Spill Liability Trust Fund (OSLTF) by $1 million in fiscal year 2006, by $3 million in 2007, and by $4 million annually thereafter. In addition, we estimate that carrying out the submerged oil program and other activities required by the bill would increase discretionary spending by $2 million in 2006 and by $16 million over the 2006-2010 period, assuming appropriation of the authorized amounts.

H.R. 1412 contains both intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the cost of complying with the mandates would be minimal and would not exceed the thresholds established in UMRA. Those thresholds are $62 million in 2005 for intergovernmental mandates and $123 million in 2005 for private-sector mandates, both adjusted annually for inflation.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1412 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and environment).

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
DIRECT SPENDING										
Spending Under Current Law for Oil Spill Response and Damage Claims [a]										
Estimated Budget Authority	60	60	60	60	60	60	60	60	60	60
Estimated Outlays	60	60	60	60	60	60	60	60	60	60
Proposed Changes										
Estimated Budget Authority [b]	0	0	-1	-1	-1	-1	-1	-1	-1	-1
Estimated Outlays	-1	-3	-4	-4	-4	-4	-4	-4	-4	-4
Spending Under H.R. 1412 for Oil Spill Response and Damage Claims										
Estimated Budget Authority	60	60	59	59	59	59	59	59	59	59
Estimated Outlays	59	57	56	56	56	56	56	56	56	56
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Spending for Submerged Oil Program and Fire and Safety Grants										
Authorization Level	4	3	3	3	3	0	0	0	0	0
Estimated Outlays	2	4	3	3	3	0	0	0	0	0

a. For each year, spending under current law includes permanent budget authority of $50 million specified for oil spill response activities and an estimated $10 million for the payment of damage claims. These amounts are used to pay the costs of spills from facilities and vessels of all types. Budget authority for claims depends on the number and amount of payments approved and can vary significantly from year to year.

b. The higher liability limits specified by H.R. 1412 would reduce both response costs and claims payments. The effect on response costs would only be reflected in outlays because budget authority for this activity is specified at $50 million a year under OPA. Any savings in response costs would thus increase OSLTF unobligated balances available for future spills. The effect on payments of claims, in contrast, would reduce both budget authority and outlays by about $1 million annually beginning in 2008.

BASIS OF ESTIMATE

For this estimate CBO assumes that H.R. 1412 will be enacted by the beginning of fiscal year 2006 and that the amounts authorized by the legislation will be appropriated for each year. The estimate of discretionary outlays is based on spending patterns for similar programs.

Direct Spending

H.R. 1412 would raise existing limits on the liability of owners or operators of tank vessels that are responsible for oil spills into U.S. navigable waters.

Under OPA, specified liability limits determine the total amount that a responsible party must pay to respond to an oil spill and to compensate third parties for damages. If the costs of a spill exceed those limits, the federal government generally pays any remaining costs and claims from the OSLTF. Current liability limits generally vary with the type of vessel. For example, the liability limit for most tank barges is $2 million per spill. The liability limit for most tankers is the greater of $1,200 per gross ton or $10 million per spill.

Under H.R. 1412, liability limits for tank vessels would vary by year, type of vessel, and whether the vessel is single-hulled or double-hulled. The liability limit for most tank barges would increase to $2.5 million in 2006 and beyond. For single-hulled tankers, the liability limit would increase to the greater of $14 million per spill or $1,900 per gross ton in 2006 and $2,250 per gross ton in 2007 and beyond. For double-hulled tankers, the liability limit would increase to the greater of $14 million per spill or $1,500 per gross ton in 2006 and $1,700 per gross ton in 2007 and beyond. In future years, the new limits would be increased to reflect anticipated inflation.

The savings to the federal government associated with raising private liability limits for tank vessels is uncertain because significant oil spills are relatively rare; in fact, since the implementation of OPA in 1991, only six spills from such vessels have exceeded the existing liability limits. (In total, those spills have accounted for about $45 million—around 10 percent—of the roughly $490 million that has been spent from the OSLTF through 2004.) Moreover, the cost of such spills depends on a variety of factors besides the type and size of a vessel—the location of a spill, for example, is an important factor that cannot be predicted.

Assuming that the frequency and severity of future oil spills from tanker vessels will be similar to those experienced since OPA was implemented, CBO estimates that increasing the existing liability limits for tanker vessels by the amounts specified by H.R. 1412 would reduce average annual spending from the OSLTF for spills from tank vessels from about $17 million (in 2005 dollars) to $16 million in fiscal year 2006, $14 million in 2007, and

$13 million annually thereafter. Savings would be lower in 2006 and 2007 because the increases in limits would be phased in over the 2006-2007 period and because savings from spills in 2006 and 2007 would be realized over the three- or four-year period that it typically takes to clean up spills and pay claims. Most of the savings from the new limits would result from reductions in the share of cleanup and other response costs that are paid from the OSLTF.

Spending Subject to Appropriation

H.R. 1412 would direct NOAA to establish a program to detect submerged oil, evaluate its environmental effects, and develop methods to remove or disperse it. In conjunction with this program, the Coast Guard would be required to conduct a demonstration project to develop methods of removing submerged oil from the Delaware River and other navigable waters. For these purposes, the bill would authorize the appropriation of $1 million for NOAA and $2 million for the Coast Guard for each of fiscal years 2006 through 2010. Finally, the bill would increase the existing authorization level for Coast Guard maritime fire and safety grants by just over $500,000. Assuming appropriation of the authorized amounts, CBO estimates that implementing these provisions would cost $2 million in fiscal year 2006 and $16 million over the 2006-2010 period.

CBO estimates that establishing and operating the Delaware River and Bay Oil Spill Advisory Committee and updating the Philadelphia-area contingency plan would have no significant effect on the federal budget.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 1412 contains an intergovernmental mandate as defined in UMRA because it would require public entities, including port authorities, to notify the Coast Guard if such an entity released an object that might obstruct the navigable waters of the Delaware River. According to information from industry sources, the likelihood that a public entity would release an obstructing object is small, and any resulting notification would impose minimal costs on state, local, or tribal governments. Therefore, CBO estimates that the cost of complying with the mandate would not exceed the threshold established in UMRA ($62 million in 2005, adjusted annually for inflation).

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 1412 would impose private-sector mandates as defined in UMRA on certain owners and operators of tank vessels and persons aware of an obstruction to navigation in U.S. waters. Based on information provided by industry and government sources, CBO expects that the aggregate direct costs of complying with those mandates would fall below the annual threshold established by UMRA for private-sector mandates ($123 million in 2005, adjusted annually for inflation).

Section 2 would require owners of objects other than vessels to notify the Coast Guard and the U.S. Army Corps of Engineers if those objects become obstructions to navigation in U.S. waters. (Under current law, notification of such obstructions is voluntary.) CBO expects that the costs to comply with this mandate would be minimal if any.

Section 3 would increase the federal limits on liability for tank vessels. An increase in liability for vessel owners and operators would tend to increase their premium payments for coverage of the greater amount. Premium payments for coverage of liability depend on many factors including the amount of coverage, the size of the vessel, the value of the cargo, and the experience rating of the tanker crew. Industry experts estimate that premium increases could vary from 10 percent to as much as 40 percent for some owners of tank vessels to pay for an increase in coverage. According to industry contacts, however, a large part of the industry already carries liability coverage above the federal limit required in the bill. Consequently, CBO expects that the incremental cost to comply with this mandate would not exceed UMRA's annual threshold.

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