CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 21, 2014

S. 2828
Ukraine Freedom Support Act of 2014

As reported by the Senate Committee on Foreign Relations on September 18, 2014

SUMMARY

S. 2828 would authorize the appropriation of $560 million over the 2015-2017 period to provide various forms of assistance to Ukraine and the surrounding region. In addition, CBO estimates that implementing the bill would increase administrative costs at the Department of State and the Office of Foreign Assets Control at the Department of the Treasury requiring additional appropriations of $20 million over the next five years. In total, CBO estimates that implementing S. 2828 would cost $545 million over the 2015-2019 period, assuming appropriation of the specified and estimated amounts.

S. 2828 also would impose sanctions affecting the defense and energy sectors of the Russian Federation and foreign financial institutions. CBO estimates that enacting those sanctions would increase revenues from collections of civil and criminal penalties and decrease revenues from visa fees. In addition, CBO estimates that enacting the bill would increase direct spending by $10 million over the 2015-2024 period by reducing future offsetting receipts from federal oil and gas leasing activities; direct spending from criminal penalties also would increase (such penalties are deposited in the Crime Victims Fund, and spent in subsequent years). In total, CBO estimates that the net increase in revenues would exceed the direct spending effects over the 2015-2024 period, but has no basis for providing a more specific estimate, given the great uncertainty of how much might be collected in sanction penalties. Because enacting the legislation would affect direct spending and revenues, pay-as-you-go procedures apply.

S. 2828 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill would impose private-sector mandates, as defined in UMRA, on entities involved in certain transactions or investments with companies that may be sanctioned under the bill. The total value of the business transactions and investments that could be affected by the sanctions in the bill amounts to billions of dollars. Thus, should the sanctions be applied to entities involved in those transactions or investments, the aggregate cost of the mandates in the bill would well exceed the annual

threshold established in UMRA for private-sector mandates ($152 million in 2014, adjusted annually for inflation), CBO estimates.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of S. 2828 are shown in the following table. The costs of this legislation fall primarily within budget functions 150 (international affairs), 270 (energy), 800 (general government), and 950 (undistributed offsetting receipts).

	By Fiscal Year, in Millions of Dollars					
	2015	2016	2017	2018	2019	2015-2019
CHANGES IN SPENDING SUBJECT TO APPROPRIATION[a]						
Security Assistance						
Authorization Level	350	0	0	0	0	350
Estimated Outlays	35	112	88	70	35	340
Energy Assistance						
Authorization Level	66	17	17	0	0	100
Estimated Outlays	7	28	25	23	11	94
Assistance to Promote Democracy, Good Governance, and Civil Society						
Authorization Level	40	20	20	0	0	80
Estimated Outlays	2	13	17	18	11	61
Expanded Broadcasting						
Authorization Level	10	10	10	0	0	30
Estimated Outlays	7	10	10	3	0	30
Administrative Expenses						
Estimated Authorization Level	2	3	5	5	5	20
Estimated Outlays	2	3	5	5	5	20
Total Changes						
Estimated Authorization Level	468	50	52	5	5	580
Estimated Outlays	53	166	145	119	62	545

a. In addition to the discretionary spending effects shown in the table, CBO estimates that enacting S. 2828 would increase direct spending by $10 million over the 2015-2024 period. CBO estimates that enacting the bill would increase revenues by more than $10 million over that period, but has no basis for providing a more specific estimate.

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 2828 will be enacted by the end of calendar year 2014 and that the necessary amounts will be appropriated each year.

Spending Subject to Appropriation

S. 2828 would authorize the appropriation of $560 million for assistance to Ukraine and other countries in the region. In addition, CBO estimates that implementing the bill would require appropriations of $20 million over the next five years to cover increased administrative costs for the departments tasked with implementing the sanctions authorized in the bill. In total, CBO estimates that implementing S. 2828 would have discretionary costs of $545 million over the 2015-2019 period, assuming appropriation of the specified and estimated amounts.

Security Assistance. Section 8 would authorize the appropriation of $350 million in 2015 for security assistance to Ukraine. Assuming appropriation of the specified amounts, CBO estimates that implementing that assistance would have discretionary costs of $340 million over the 2015-2019 period.

Energy Assistance. Section 9 would authorize the appropriation of $100 million over the 2015-2017 period to the Departments of State and Energy and the U.S. Agency for International Development to assist Ukraine with its energy needs. Assuming appropriation of the specified amounts, CBO estimates that implementing that assistance would have discretionary costs of $94 million over the 2015-2019 period.

Assistance to Promote Democracy, Good Governance, and Civil Society. Section 9 also would authorize the appropriation of $20 million in 2015 to strengthen democratic institutions, rule of law, civil society, and transparency in Ukraine. In addition, section 11 would authorize the appropriation of $20 million each year over the 2015-2017 period for similar purposes in the Russian Federation. Assuming appropriation of those amounts, CBO estimates that implementing those provisions would have discretionary costs of $61 million over the 2015-2019 period.

Expanded Broadcasting. Section 10 would authorize the appropriation to the Broadcasting Board of Governors of $10 million each year over the 2015-2017 period to expand broadcasting services to countries of the former Soviet Union. Those services would include content in Russian and other regional languages distributed via radio, television, Internet, and other platforms. Assuming appropriation of the specified amounts, CBO estimates that implementing this provision would have discretionary costs of $30 million over the 2015-2019 period.

Administrative Expenses. Implementing S. 2828 would increase administrative costs of the Department of State and the Department of the Treasury. Based on information from the Administration, CBO estimates that the departments would hire 12 additional employees (domestically and overseas) to implement the bill and would require additional appropriations totaling $20 million over the 2015-2019 period.

Direct Spending and Revenues

Several provisions in S. 2828 would impose sanctions that would affect direct spending and revenues. CBO estimates that enacting those sanctions would increase direct spending by $10 million over the 2015-2024 period and would increase revenues by an even greater amount. However, CBO has no basis for providing a more specific estimate of the effect on revenues.

Oil and Gas Leases. Under section 4, foreign persons who violate the bill's restrictions would be subject to certain sanctions as well as to any applicable civil or criminal penalties. Specifically, foreign persons who make significant investments in certain crude oil projects in Russia would be subject to at least three of nine sanctions authorized by the bill, one of which is a prohibition on acquiring, holding, using, or transferring any property that is subject to the jurisdiction of the United States. CBO estimates that enacting this provision would increase direct spending by about $10 million over the 2015-2024 period by reducing future offsetting receipts from federal oil and gas leasing activities on federal land.

Several global energy firms have been developing oil and gas resources in both Russia and the federal portion of the Outer Continental Shelf. CBO expects that most firms would comply with the restrictions in the bill; however, there is a chance that one or more of the firms that have federal leases would want to invest in Russia, which reportedly has proven oil reserves of 80 billion barrels. For this estimate, CBO assumes that there is a one in three chance that the President would impose the property sanction on foreign firms that make such investments; that the ban would affect a very small portion of the nearly $7 billion that CBO projects will be collected over the 2015-2024 period from bonus and rental payments made by foreign firms. Some of the reduction in offsetting receipts from foreign firms would be offset by additional payments by domestic energy companies.

Penalties. Because S. 2828 would expand the types of prohibited activities in Russia that are subject to civil and criminal penalties under current law, and the persons to which those penalties apply, CBO expects that the bill would increase revenues from the collection of such penalties. (The legislation also would increase direct spending from criminal penalties, which are deposited in the Crime Victims Fund and spent in subsequent years. However, CBO expects that the net effects of collecting and spending those penalties would not be significant in any year.) The size of penalties imposed for such violations is determined by the egregiousness of the violation and by the size of the prohibited transaction. Final penalty payments are sometimes settled for amounts lower than the maximum allowable penalty.

The potential number and size of prohibited transactions that could occur under S. 2828, and therefore the amount of civil penalties, could be very significant because of the potential profits that might result from the prohibited transactions with Russia, which has a large and integrated economy. On the other hand, if violations are unintentional and reported to the government in a timely manner, the size of the penalties could be relatively small. Based on experience with collections from penalties assessed for violations of different sanctions on other countries, CBO expects that, at a minimum, the revenue raised from the civil penalties under S. 2828 would exceed the increase in direct spending resulting from the bill ($10 million) over the 2015-2024 period. Because the number of violations, the size of those violations, the size of the penalty assessed for those violations, and the degree of enforcement of such sanctions are all highly uncertain, CBO has no basis for providing a more specific estimate for the amount that revenues would increase.

Visa Prohibitions. Under S. 2828 foreign persons found to have engaged in sanctionable behavior could be prohibited from entering the United States. To the extent that the Administration chooses to impose this sanction from the menu of sanctions authorized under the bill, it would increase the number of people denied a visa by the Secretary of State. Most visa fees are retained by the department and spent without further appropriation, but some fees are deposited in the Treasury as revenues. CBO estimates that implementing this provision would affect very few people and, thus, have insignificant effects on both revenues and direct spending over the 2015-2024 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. CBO estimates that enacting the bill would increase direct spending by $10 million over the 2015-2024 period by reducing future offsetting receipts from federal oil and gas leasing activities. Sanctions under the bill would increase revenues from collections of civil and criminal penalties. CBO estimates that the increase in revenues would exceed the direct spending effects, but has no basis for providing a more specific estimate.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 2828 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 2828 would impose private-sector mandates, as defined in UMRA, by prohibiting certain transactions with sanctioned Russian entities that either transfer or sell defense articles to several countries including Ukraine, Syria, and Georgia, as well as transactions with entities supporting such activities. The cost of the mandate would be the forgone net income from prohibited transactions. The bill would impose another private-sector mandate by prohibiting entities from making significant investments in certain crude oil projects in Russia. The cost of that mandate would be the forgone net income from those investments.

Existing defense contracts and oil investments in Russia are valued in the billions of dollars and are held by several large multinational corporations. Should the President choose to apply sanctions that would sever even one existing contract or significant investment held by one of those corporations, the cost of the mandates would be substantial. Therefore, CBO estimates the cost would probably well exceed the annual threshold established in UMRA for private-sector mandates ($152 million in 2014, adjusted annually for inflation).

ESTIMATE PREPARED BY:

Federal Costs: Sunita D'Monte, Kathy Gramp, and Pamela Greene
Impact on State, Local, and Tribal Governments: Jon Sperl
Impact on the Private Sector: Marin Burnett

ESTIMATE APPROVED BY:

Theresa Gullo
Deputy Assistant Director for Budget Analysis