CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

December 2, 2014

Honorable Paul Ryan
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

As you requested, this letter explains the Congressional Budget Office's (CBO's) general approach to estimating the budgetary effects of legislation that would authorize or require the federal government to dispose of land and associated natural resources through sale, exchange, or transfer.

One broad principle underlies all such estimates: Because the federal budget mostly records cash flows on a year-by-year basis, the estimated budgetary effects of proposed land sales, exchanges, or transfers are shown on a cash basis for the coming 10 years; the value of the land involved affects the budget estimates only to the extent that it affects the projected cash flows. Those flows are estimated on the basis of the specific characteristics of the land in question.

Under what circumstances would CBO estimate that legislation requiring the federal government to dispose of federal land and associated resources would result in a cost to the government?

In general, CBO estimates that legislation authorizing or mandating the disposal of federal land would have a cost when it expects that, in the absence of the legislation, that land will generate net receipts for the U.S. Treasury and that those receipts will exceed any net cash proceeds that would result from the sale, exchange, or transfer. Federal lands may generate receipts in a variety of ways. For example:

- Resources on the land—timber, geothermal, coal, oil, or other natural resources—may be developed by private parties who pay bonus bids, rents, and royalties for use of the land and the resources they extract;

- Various activities such as grazing livestock or using a utility right-of-way may be allowed in exchange for certain payments; or

- The managing agency may plan to sell the land under its existing authority.

For instance, CBO estimated that enacting S. 2480, the Nevada Native Nations Lands Act, would result in a small cost because the lands that would be conveyed are expected to generate receipts for the federal government from grazing fees and leases under current law.[1]

If CBO expects that the affected land will not generate receipts over the next 10 years, it estimates that disposing of the land would not result in a loss of receipts regardless of the potential value of the property or related resources. For example, for H.R. 5040, the Idaho County Shooting Range Land Conveyance Act, CBO estimated that conveying about 30 acres of federal land would not have a significant effect on the federal budget because the land does not currently generate receipts for the federal government and is not expected to generate them for the foreseeable future.[2]

Another situation that might result in projected costs to the federal government occurs when legislation would require an agency to conduct a land exchange with a nonfederal entity and the land being given to the federal government is more valuable than the federal land that would be conveyed. In such a case, the legislation might require the government to make a cash payment to the nonfederal entity (known as a cash equalization payment) to make up for the difference in the values of the affected lands. (The fact that the federal government would now have a more valuable parcel of land would be reflected in the budget only to the extent that it influenced future cash flows.)

1. Congressional Budget Office, cost estimate for S. 2480, the Nevada Native Nations Lands Act (August 29, 2014), www.cbo.gov/publication/45682.

2. Congressional Budget Office, cost estimate for H.R. 5040, the Idaho County Shooting Range Land Conveyance Act (October 10, 2014), www.cbo.gov/publication/49463.

Where does CBO get the information it uses to determine whether conveying land to another entity would have a cost?

Typically, the Bureau of Land Management, the Forest Service, or another federal agency responsible for managing the affected land provides information to CBO about any receipts being collected under current law and whether the agency plans to continue collecting such receipts in the future. CBO also seeks to gather information, including appraisal data or plans to acquire the affected land, from state or local governments or private parties that would be involved in those transactions. If, on the basis of such information, CBO expects the affected land to continue to generate receipts in the future, then it would estimate that giving the land away would result in a loss of income to the government.

If land being proposed for sale, exchange, or transfer is not currently generating receipts, CBO seeks to determine whether that land will generate receipts in the future under current law. As part of that process, CBO asks agencies how they plan to manage the affected land in the future, assuming no changes in law. If the agency indicates that it is actively conducting (or planning to conduct) certain activities that would generate receipts from the affected land in the future, CBO's estimate may reflect an expectation that selling, exchanging, or transferring that land would preclude the federal government from collecting those amounts. CBO's cost estimate for S. 2442, the Northern Cheyenne Lands Act, is an example of such an estimate. On the basis of information provided by the Bureau of Land Management and firms operating in the coal industry, CBO estimated that enacting that bill would reduce net receipts to the federal government because, under current law, much of the land that would be conveyed under the bill was to be leased to a private company to mine coal.[3]

Finally, if legislation would require the disposal of a large amount of federal land or gave agencies the discretion to choose parcels for disposal, CBO might not be able to estimate the budgetary effects of the legislation on a parcel-by-parcel basis. Instead, CBO would estimate the cost of the legislation by determining the expected receipts for a typical acre of federal land with attributes similar to those of the affected land and would use that amount as the basis for estimating any loss of receipts.

3. Congressional Budget Office, cost estimate for S. 2442, the Northern Cheyenne Lands Act (August 28, 2014), www.cbo.gov/publication/45674.

In preparing cost estimates for proposed legislation to dispose of federal land, does CBO need to know the land's market value?

If legislation would require an agency to sell, exchange, or transfer federal land, CBO sometimes needs to know the market value of the affected land, including, in the case of a land exchange, the value of nonfederal land. If the bill would require an agency to sell federal land to the highest bidder, CBO uses an estimate of the market value to estimate the proceeds the agency would receive from the sale. However, legislation may direct an agency to negotiate the sale of specific property to a specific party, in which case the market value of the property may not be relevant.

If a bill would require an exchange of properties between a federal agency and a local government or private party, CBO may compare estimates of the market values of the federal and nonfederal lands to determine whether a cash equalization payment would be required, whether the agency would make or receive that payment, and the size of the payment.

Finally, CBO must determine whether an agency would have the authority to spend any cash proceeds from a land sale or exchange. If an agency could use existing authorities or new authorities provided by the legislation to spend those proceeds, CBO typically estimates that enacting such a bill would have no significant net effect on the deficit because any cash receipts generated by the legislation would be spent.

How does CBO determine the fair market value of federal land if that amount is needed to estimate the budgetary effects of a transaction?

CBO uses a variety of approaches to estimate the market value of federal land that has been proposed for sale or exchange. Those approaches include calculating the net present value of the future cash flows expected to stem from the highest and best use of the affected land, reviewing real estate listings to find the values of comparable lands, or reviewing appraisal documents provided by agencies or other affected parties. For example, in preparing the cost estimate for H.R. 1170, a bill to convey certain federal land to the city of Fernley, Nevada, CBO used publicly available information about the market value of similar land in the area to estimate the additional receipts that would be collected from resulting sales.[4] When possible, CBO uses multiple methods and sources to determine the market

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4. Congressional Budget Office, cost estimate for H.R. 1170, a bill to direct the Secretary of the Interior, acting through the Bureau of Land Management and the Bureau of Reclamation, to convey, by quitclaim deed, to the city of Fernley, Nevada, all right, title, and interest of the United States, to any federal land within that city that is under the jurisdiction of either of those agencies (November 14, 2013), www.cbo.gov/publication/44859.

value of the affected land to ensure that its estimate is as accurate as possible.

I hope this information is helpful to you. If you need further details on this subject, we would be pleased to provide them. The CBO staff contact is Jeff LaFave, who can be reached at 226-2860.

Sincerely,

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

cc: Honorable Chris Van Hollen
Ranking Member