CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 7, 2009

S. 705
Overseas Private Investment Corporation Reauthorization Act of 2009

As ordered reported by the Senate Committee on Foreign Relations on March 31, 2009

SUMMARY

S. 705 would authorize the Overseas Private Investment Corporation (OPIC) to continue to issue political risk insurance and to finance investments in developing countries and emerging market economies with direct loans and loan guarantees. This authority, which is set to expire at the end of fiscal year 2009 under current law, would extend through September 30, 2013.

CBO estimates that implementing S. 705 would cost $137 million over the 2010-2014 period, assuming appropriation of the estimated amounts. Enacting the bill would not affect direct spending or revenues.

S. 705 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 705 is shown in the following table. The costs of this legislation fall within budget function 150 (international affairs).

	By Fiscal Year, in Millions of Dollars					
	2010	2011	2012	2013	2014	2010-2014
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Administrative Expenses						
Estimated Authorization Level	10	22	32	44	39	148
Estimated Outlays	9	20	30	42	39	140
Insurance Program						
Estimated Authorization Level	5	8	10	10	7	40
Estimated Outlays	2	5	8	9	9	33
Loan Program						
Estimated Authorization Level	27	19	8	1	-33	23
Estimated Outlays	-1	-4	-9	-11	-11	-36
Total Changes						
Estimated Authorization Level	42	49	50	55	13	209
Estimated Outlays	10	21	29	40	37	137

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 705 will be enacted before the end of fiscal year 2009, that the necessary funds and authority will be provided in annual appropriation acts each fiscal year, and that outlays will follow historical spending patterns for OPIC activities.

OPIC operates a program to insure investors in developing countries and emerging markets against financial losses due to expropriation, currency inconvertibility, and damage resulting from political violence. In addition, OPIC operates a loan program to finance such investment through direct loans and loan guarantees. The bill would authorize OPIC to issue new insurance policies, loans, and loan guarantees through September 30, 2013.

The Omnibus Appropriations Act, 2009 (Public Law 111-8) authorized OPIC to continue issuing insurance policies and financing investments through the end of fiscal year 2009. Estimated spending under current law therefore assumes that OPIC continues to service its outstanding portfolio of insurance and loans and continues to receive interest on its current investments in U.S securities, but that it issues no new policies and finances no new investments after September 30, 2009.

Administrative Expenses

In 2009, OPIC received appropriations of $51 million for administrative expenses. CBO expects that under current law (that is, without reauthorization) total appropriations for administrative expenses would decline gradually from the 2009 level to the minimum amount necessary to service its outstanding insurance and loans. CBO estimates that if the programs are reauthorized total appropriations for administrative expenses would remain at 2009 levels, adjusted for inflation, through 2013. Administrative expenses thereafter would only be needed to service outstanding insurance and loans. CBO estimates that under the bill additional administrative costs would total $140 million over the 2010-2014 period, assuming appropriation of the necessary amounts.

Insurance Program

CBO expects that under current law insurance premiums and claim payments would decline each year, based on historical data showing that about 20 percent of insurance policies are cancelled or reduced each year. CBO also anticipates that there would be no further obligations for project-specific expenses or various activities to encourage investment. Under the bill, CBO assumes that OPIC's insurance portfolio, premiums, and claims would remain at the estimated 2009 level through 2013. Given that claim payments have exceeded premiums in recent years, we estimate that, excluding relevant administrative expenses, extending the authority for OPIC's insurance program would result in a net cost of $33 million (claims paid out minus premiums paid in) over the 2010-2014 period.

Loan Program

In 2009, OPIC received an appropriation of $29 million for the cost of loan subsidies as defined in the Federal Credit Reform Act. CBO expects that under current law subsidy costs would decline gradually from the 2009 level as disbursement of approved loans also decline. CBO estimates that under the bill subsidy costs would remain at 2009 levels, adjusted for inflation, through 2013. CBO estimates that additional subsidy costs under the bill would total $60 million over the 2010-2014 period.

For the past several years, the subsidy rate for many loan guarantees made by OPIC has been negative, thus generating discretionary offsetting collections. CBO expects that under current law such receipts would decline gradually from an estimated $40 million in 2009 to $5 million in 2014. We estimate that under the bill those collections would increase by $96 million over the 2010-2014 period.

Thus, CBO estimates that, excluding relevant administrative expenses, reauthorizing OPIC's loan program would result in a net savings of $36 million over the 2010-2014 period—$60 million in additional costs minus $96 million in additional receipts.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 705 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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