



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

March 5, 2007

H.R. 720

Water Quality Financing Act of 2007

*As ordered reported by the House Committee on Transportation and Infrastructure
on March 1, 2007*

SUMMARY

CBO estimates that implementing this legislation would cost about \$9.2 billion over the next five years, assuming the appropriation of the necessary amounts, for the Environmental Protection Agency (EPA) to provide various types of grants to states and nonprofit organizations to support water quality projects and programs. The Joint Committee on Taxation (JCT) estimates that enacting H.R. 720 would reduce revenues by \$50 million over the 2008-2012 period and by \$541 million over the next 10 years. CBO estimates that enacting title VI would increase vessel tonnage charges on vessels entering the United States from any foreign port or place, effective for fiscal years 2008-2017. Those charges would increase offsetting receipts, which are credits against direct spending, by \$615 million over the 2008-2017 period.

H.R. 720 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

H.R. 720 contains private-sector mandates, as defined in UMRA, on operators of vessels entering the United States from any foreign port or place by increasing certain vessel tonnage duties over the 2008-2017 period. CBO estimates that the incremental direct costs of complying with those mandates would fall below the annual threshold established by UMRA for private-sector mandates (\$131 million in 2007, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 720 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and environment).

TABLE 1. BUDGETARY EFFECTS OF H.R. 720

	By Fiscal Year, in Millions of Dollars					
	2007	2008	2009	2010	2011	2012
CHANGES IN REVENUES						
Changes to Tax-Exempt Financing						
Estimated Revenues ^a	0	*	-1	-4	-13	-31
CHANGES IN SPENDING DIRECT SPENDING						
Vessel Tonnage Charges						
Estimated Budget Authority	0	-40	-41	-41	-67	-68
Estimated Outlays	0	-40	-41	-41	-67	-68
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Budget Authority ^b	1,300	0	0	0	0	0
Estimated Outlays	1,412	1,211	781	562	430	409
Proposed Changes						
Clean Water SRF Grants						
Authorization Level	0	2,000	3,000	4,000	5,000	0
Estimated Outlays	0	100	450	1,250	2,350	3,150
Technical Assistance and Research Grants						
Estimated Authorization Level	0	75	75	75	75	75
Estimated Outlays	0	38	60	71	75	75
State Management Assistance Grants						
Authorization Level	0	300	300	300	300	300
Estimated Outlays	0	285	300	300	300	300
Watershed Pilot Projects						
Authorization Level	0	20	20	20	20	20
Estimated Outlays	0	10	16	19	20	20
Total Proposed Changes ^c						
Estimated Authorization Level	0	2,396	3,395	4,395	5,395	395
Estimated Outlays	0	434	826	1,640	2,745	3,545

Continued

TABLE 1. BUDGETARY EFFECTS OF H.R. 720 (Continued)

	By Fiscal Year, in Millions of Dollars					
	2007	2008	2009	2010	2011	2012
SPENDING SUBJECT TO APPROPRIATION (Continued)						
Spending Under H.R. 720						
Estimated Authorization Level	1,300	2,396	3,395	4,395	5,395	395
Estimated Outlays	1,412	1,645	1,607	2,202	3,175	3,954

NOTE: * = revenue loss of less than \$500,000.

- a. Estimate provided by JCT.
 - b. The 2007 level is the amount appropriated for that year to EPA to support its grant programs related to waste water.
 - c. H.R. 720 also would require the Government Accountability Office to prepare two studies required under the bill. CBO estimates that those studies would cost about \$1 million.
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BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 720 will be enacted in fiscal year 2007, that the full amounts authorized will be appropriated, and that outlays will follow the historical patterns of similar EPA programs. Components of the estimated costs are described below.

Revenues

This bill would increase the funds available under the clean water State Revolving Fund (SRF) program, which could result in some states leveraging their funds by issuing additional tax-exempt bonds. The JCT estimates that consequent reductions in revenue would total \$50 million over the 2008-2012 period, and \$541 million over the next 10 years (see Table 2).

Direct Spending

Title VI would increase, through fiscal year 2017, per-ton duties on vessels arriving at U.S. ports from foreign ports. On vessels arriving from such ports in the Western Hemisphere, the per-ton rate would rise to 9 cents (with a maximum of 45 cents per ton per year); on

vessels arriving from other foreign ports, the rate would rise to 27 cents (with a maximum of \$1.35 per year). Under existing law (as amended by Public Law 109-171 on February 8, 2006), the rates for vessels from Western Hemisphere ports are 4.5 cents per ton (with a maximum of 22.5 cents per ton per year) through fiscal year 2010 and 2 cents per ton (with a maximum of 10 cents per ton per year) each year thereafter. Per-ton rates for vessels from other foreign ports are 13.5 cents (with a maximum of 67.5 cents per ton per year) through fiscal 2010 and 6 cents (with a maximum of 30 cents per ton per year) each year thereafter.

CBO estimates that enacting this legislation would increase offsetting receipts from tonnage duties by about \$40 million a year between 2008 and 2012 and by about \$70 million each year thereafter through 2017. Total estimated collections over the 2008-2017 period would be \$615 million (see Table 2). This estimate is based on receipts collected from tonnage duties before fiscal year 2002 (when those rates were temporarily increased), adjusted for changes in shipping traffic experienced since that time. For this estimate, CBO assumes that shipping traffic at U.S. ports continues to grow at the rates experienced in recent years. Like collections from the existing duties, amounts received as a result of the proposed increases would be deposited in the general fund of the U.S. Treasury as offsetting receipts.

TABLE 2. H.R. 720's CHANGES IN REVENUES AND DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
CHANGES IN REVENUES											
Estimated Revenues	0	*	-1	-4	-13	-31	-57	-86	-108	-119	-121
CHANGES IN DIRECT SPENDING											
Vessel Tonnage Charges											
Under Current Law											
Estimated Budget Authority	-34	-40	-41	-42	-18	-19	-19	-19	-20	-20	-20
Estimated Outlays	-34	-40	-41	-42	-18	-19	-19	-19	-20	-20	-20
Proposed Changes											
Estimated Budget Authority	0	-40	-41	-41	-67	-67	-69	-71	-71	-73	-75
Estimated Outlays	0	-40	-41	-41	-67	-67	-69	-71	-71	-73	-75
Vessel Tonnage Charges											
Under H.R. 720											
Estimated Budget Authority	-34	-80	-82	-83	-85	-86	-88	-90	-91	-93	-95
Estimated Outlays	-34	-80	-82	-83	-85	-86	-88	-90	-91	-93	-95

NOTE: * = revenue loss of less than \$500,000.

Spending Subject to Appropriation

H.R. 720 would authorize the appropriation of \$14 billion over the 2008-2012 period for EPA to provide capitalization grants for the clean water (SRF) program. States would use such grants along with their own funds to make low-interest loans to communities and grants to Indian tribes to construct wastewater treatment facilities and to fund other related projects. This bill would make several revisions to this grant program, including extending loan repayment terms and expanding the types of projects eligible for assistance.

This legislation also would authorize the appropriation of up to \$375 million over the next five years for EPA to make grants to nonprofit organizations to provide technical assistance, such as training, to rural and small communities, and to support research on the technologies and practices used to treat wastewater. In addition, H.R. 720 would authorize the appropriation of \$1.5 billion over the 2008-2012 period for EPA to make grants to states to support various activities associated with implementing state clean water programs; this would include paying the salaries of personnel working on water quality issues and establishing regulations and enforcing clean water laws.

Enacting this legislation also would authorize the appropriation of \$100 million over the 2008-2012 period for EPA to provide technical assistance and grants for treatment facilities to carry out pilot projects related to watershed management.

H.R. 720 also would require the Government Accountability Office to conduct two studies. One study would address the funding sources available to establish a Clean Water Trust Fund, and the other study would address alternative financing for water infrastructure projects. CBO estimates that completing the two studies would cost about \$1 million over the next two years, assuming the availability of appropriated funds.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 720 contains no intergovernmental mandates as defined in UMRA. The bill would authorize grants and loans to assist state, local, and tribal governments in protecting water quality and enhancing water systems. Any costs that they might incur, including matching funds, would result from complying with conditions of federal assistance.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 720 would impose private-sector mandates on operators of vessels entering the United States from any foreign port or place by increasing certain vessel tonnage duties over the 2008-2017 period. The direct costs of complying with those mandates would be the incremental amounts collected by the federal government as a result of the higher rates. CBO estimates that the annual incremental cost of those mandates would reach \$68 million in 2012 and thus would fall below the annual threshold established by UMRA (\$131 million in 2007, adjusted annually for inflation) in the first five years the mandates are in effect.

ESTIMATE PREPARED BY:

Federal Spending: Susanne S. Mehlman and Deborah Reis
Federal Revenues: Thomas Holtmann, Joint Committee on Taxation
Impact on State, Local, and Tribal Governments: Lisa Ramirez-Branum
Impact on the Private Sector: Amy Petz

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis