



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

June 13, 2017

H.R. 2085

**A bill to approve an agreement between the United States
and the Republic of Palau, and for other purposes**

*As ordered reported by the House Committee on Natural Resources
on April 27, 2017*

SUMMARY

H.R. 2085 would change and approve the agreement and appendices signed between the United States and the Republic of Palau on September 3, 2010, in connection with the Compact of Free Association between the two nations. The compact, agreements, and appendices that were approved in 1994 govern the political, economic, and military relationships between the United States and Palau.

CBO estimates that enacting the bill would increase direct spending by \$156 million over the 2018-2027 period. Because enacting the bill would affect direct spending, pay-as-you-go procedures apply. Enacting the bill would not affect revenues. CBO also estimates that if appropriated funds are provided, continuing federal services in Palau would cost \$108 million over the 2018-2022 period.

CBO estimates that enacting H.R. 2085 would not increase net direct spending or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2028.

H.R. 2085 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 2085 is shown in the following table. The costs of this legislation fall within all budget functions that provide services to Palau.

By Fiscal Year, in Millions of Dollars													2017-	2017-
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2022	2027	
INCREASES IN DIRECT SPENDING														
Estimated Budget Authority	0	105	12	11	10	9	6	3	0	0	0	147	156	
Estimated Outlays	0	105	12	11	10	9	6	3	0	0	0	147	156	
INCREASES IN SPENDING SUBJECT TO APPROPRIATION														
Estimated Authorization Level	0	20	21	21	23	23	23	23	0	0	0	108	154	
Estimated Outlays	0	20	21	21	23	23	23	23	0	0	0	108	154	

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 2085 will be enacted near the end of fiscal year 2017 and that spending will follow historical patterns for federal funds provided to Palau.

Direct Spending

H.R. 2085 would modify the 2010 compact to specify and appropriate the amounts that the United States agrees to provide to Palau (\$140 million over the 2018-2024 period) and would specify an inflation factor to adjust those amounts. Those funds would be aimed at assisting the island with major infrastructure improvements and economic development. Accounting for the adjustments for inflation, CBO estimates that enacting H.R. 2085 would increase direct spending by \$156 million for assistance to Palau over the 2018-2024 period.

Spending Subject to Appropriation

H.R. 2085 also would authorize several federal departments to continue providing services to Palau through 2024, including the Departments of Agriculture, Commerce, Defense, Education, Health and Human Services, Interior, State, and Transportation. In addition, the bill would authorize the appropriation of \$1.5 million a year through 2024 for certain U.S. Postal Service expenses in Palau. Based on an analysis of information about the level of federal spending in the most recent financial audit of the island and accounting for anticipated inflation, CBO estimates that continuing those programs and services would cost \$108 million over the 2018-2022 period and a total of \$154 million through 2024.

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. The net changes in outlays that are subject to these pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 2085, as ordered reported by the House Committee on Natural Resources on April 27, 2017

	By Fiscal Year, in Millions of Dollars												
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2017-2022	2017-2027
NET INCREASE IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	105	12	11	10	9	6	3	0	0	0	147	156

INCREASE IN LONG-TERM NET DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 2085 would not increase net direct spending or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2028.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2085 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Costs: Matthew Pickford
 Impact on State, Local, and Tribal Governments: Zachary Byrum
 Impact on the Private Sector: Paige Piper/Bach

ESTIMATE APPROVED BY:

H. Samuel Papenfuss
 Deputy Assistant Director for Budget Analysis