CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 9, 2018

H.R. 5105
BUILD Act of 2018

As ordered reported by the House Committee on Foreign Affairs on May 9, 2018

SUMMARY

H.R. 5105 would authorize the establishment of a new development finance institution for the United States: the U.S. International Development Finance Corporation (USIDFC). USIDFC would promote economic development in less developed countries by providing loans, equity, insurance, and other forms of assistance to U.S. companies and other entities that want to invest and expand in those countries. CBO estimates that, on net, implementing the legislation would reduce federal costs by $77 million over the 2019-2023 period, assuming appropriation actions consistent with the bill.

CBO estimates that enacting H.R. 5105 would increase direct spending by $113 million over the 2019-2028 period. Because the bill would affect direct spending, pay-as-you-go procedures apply. The bill would not affect revenues.

CBO estimates that enacting H.R. 5105 would not increase net direct spending by more than $2.5 billion or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2029.

H.R. 5105 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 5105 is shown in Table 1. The costs of the legislation fall within budget function 150 (international affairs).

TABLE 1. BUDGETARY EFFECTS OF H.R. 5105, THE BUILD ACT OF 2018

	By Fiscal Year, in Millions of Dollars						
	2018	2019	2020	2021	2022	2023	2019-2023
INCREASES OR DECREASES (-) IN SPENDING SUBJECT TO APPROPRIATION							
Estimated Authorization Level	0	0	-1	-20	28	114	122
Estimated Outlays	0	0	-89	-67	-8	86	-77
INCREASES IN DIRECT SPENDING[a]							
Estimated Budget Authority	0	0	12	12	13	13	50
Estimated Outlays	0	0	12	12	13	13	50

a. H.R. 5105 would change direct spending as shown here (an increase of $50 million over the 2019-2023 period) and also would have effects beyond 2023. CBO estimates that enacting the bill would increase direct spending by $113 million over the 2019-2028 periods (see Table 3).

Details may not sum to totals because of rounding.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 5105 will be enacted by the end of 2018, that the estimated amounts will be appropriated each fiscal year, and that outlays will match historical spending patterns for similar activities.

Spending Subject to Appropriation

H.R. 5105 would consolidate several existing development finance, credit, and foreign assistance programs into the new USIDFC and provide it with new and broader authority. The agency's authority to enter into new agreements would expire seven years after enactment of the legislation. The Administration requested funding in 2019 for a similar new institution.

The bill would require the Overseas Private Investment Corporation (OPIC), the Development Credit Authority (DCA), and several smaller legacy credit programs of the U.S. Agency for International Development (USAID) to be folded into USIDFC. Under the bill, USIDFC would have a $60 billion ceiling on outstanding liability—roughly double the current combined total liability for those programs. Under current law, OPIC's outstanding liability is roughly $23 billion, and CBO expects that within the next two years it will reach the currently authorized $29 billion ceiling.

The Administration would be authorized to transfer other programs to USIDFC, such as enterprise funds, sovereign loan guarantees, and microenterprise credit. The Administration indicated that it is unlikely to do so, however, and this estimate does not include any effects related to those programs. Finally, H.R. 5105 would institutionalize coordination between USIDFC and USAID, thereby allowing USAID staff overseas to identify potential projects and promote USIDFC.

Under current law, OPIC helps U.S. companies expand and invest overseas, primarily by providing direct loans, loan guarantees, and insurance; DCA promotes commercial lending in developing countries by guaranteeing the timely repayment of loans made by local lenders. Although the authority of both entities to enter into new contracts expires at the end of fiscal year 2018, they will continue to operate for some years after that date to service existing contracts.

Under the bill, USIDFC would continue the existing programs run by OPIC and DCA and would be newly authorized to invest in projects, either directly or through investment funds. The bill would loosen an existing requirement on OPIC to work with U.S. citizens and corporations. H.R. 5105 also would require USIDFC to focus primarily on less developed countries, whereas current programs also operate in higher-income countries transitioning to market economies. On the basis of information from the Administration about how USIDFC would implement that focus, CBO estimates that in comparison to current programs, a greater proportion of loans and loan guarantees would have a positive subsidy cost (that is, they increase net costs), as defined in the Federal Credit Reform Act of 1990 (FCRA).[1] In addition, on the basis of information from the Administration about USAID's legacy credit portfolio, CBO anticipates little, if any, effect on those programs under the bill.

On the basis of information from the Administration about how it would implement the transition plan detailed in H.R. 5105, CBO expects that USIDFC would begin operations in 2020. In total, after accounting for OPIC and DCA costs to complete current contracts, and assuming appropriation actions consistent with the bill, CBO estimates that implementing H.R. 5105 would reduce costs by $77 million, on net, over the 2019-2023 period. The components of that estimate are discussed below and shown in Table 2.

1. Under FCRA, the subsidy cost of a direct loan or loan guarantee is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other expenses, offset by any payments to the government, including origination fees, other fees, penalties, and recoveries on defaulted loans. (A present value expresses a flow of past and future income or payments as a single amount received or paid at a specific time.) The net present value does not include the cost of market risk. Such subsidy costs are recorded in the budget when loans are disbursed.

TABLE 2. CHANGES IN SPENDING SUBJECT TO APPROPRIATION IN H.R. 5105, THE BUILD ACT OF 2018

	By Fiscal Year, in Millions of Dollars						
	2018	2019	2020	2021	2022	2023	2019-2023
INCREASES OR DECREASES (-) IN SPENDING SUBJECT TO APPROPRIATION							
Administrative Expenses							
Estimated Authorization Level	0	0	51	56	59	64	230
Estimated Outlays	0	0	31	52	58	62	204
Positive Subsidy Costs for Loans							
Estimated Authorization Level	0	0	85	87	89	91	353
Estimated Outlays	0	0	25	44	55	65	189
Negative Subsidies for Loans							
Estimated Authorization Level	0	0	-170	-221	-253	-272	-916
Estimated Outlays	0	0	-170	-221	-253	-272	-916
Equity Investments							
Estimated Authorization Level	0	0	50	75	150	250	525
Estimated Outlays	0	0	50	75	150	250	525
Other Assistance							
Estimated Authorization Level	0	0	15	15	16	16	62
Estimated Outlays	0	0	7	15	15	16	53
Fees for Activities Related to Specific Projects							
Estimated Authorization Level	0	0	-34	-34	-35	-36	-139
Estimated Outlays	0	0	-34	-34	-35	-36	-139
Inspector General							
Estimated Authorization Level	0	0	3	3	3	3	12
Estimated Outlays	0	0	3	3	3	3	12
Insurance Premiums							
Estimated Authorization Level	0	0	-1	-1	-1	-2	-5
Estimated Outlays	0	0	-1	-1	-1	-2	-5
Total Changes							
Estimated Authorization Level	0	0	-1	-20	28	114	122
Estimated Outlays	0	0	-89	-67	-8	86	-77

Details may not sum to totals because of rounding.

Administrative Expenses. Under current law, OPIC and DCA will be unable to enter into new contracts starting in 2019; however, they will continue to service their existing portfolios for some time. CBO estimates they will begin reducing staffing in 2019 but that severance payments will keep appropriations required for administrative expenses at the current amount ($89 million) in that year. In 2020, CBO estimates, that amount will decline to $46 million and will continue to fall in following years.

On the basis of information from the Administration about its budget request for 2019 and staffing requirements to implement the new authority granted under H.R. 5105, CBO estimates that USIDFC would consolidate existing personnel from OPIC and DCA and hire three additional employees (primarily to implement equity investments); those activities would require appropriations in 2020 totaling $97 million. Over the 2020-2023 period, CBO estimates, total administrative expenses would grow by about 2 percent each year.

After adjusting for ongoing costs of OPIC and DCA, CBO estimates that, on net, implementing H.R. 5105 would require additional appropriations of $51 million in 2020 and would increase administrative expenses by $204 million over the 2020-2023 period, assuming appropriation of the necessary amounts.

Positive Subsidy Costs for Loans. On the basis of information from the Administration and after adjusting for projected growth under the higher ceiling on outstanding liability authorized by H.R. 5105, CBO estimates that appropriations required for the subsidy costs of new loans and loan guarantees would amount to $85 million in 2020 and total about $350 million over the 2020-2023 period. (In 2018, OPIC and DCA received total appropriations of $75 million for subsidy costs.) Assuming appropriation of the necessary amounts, CBO estimates that outlays for those subsidy costs would increase by $189 million over the 2020-2023 period. (Outlays would lag behind appropriations, reflecting the expected pace of disbursements of new loans.)

Negative Subsidies for Loans. Some of the loans OPIC currently provides yield a net budgetary savings under the cost formula specified in FCRA, which requires that the expected government cash flows be discounted using the rates on Treasury securities of comparable maturity. Those loans have lower default rates and higher fees than other products and, thus, yield net savings to the government. In 2018, CBO estimates, OPIC will generate $250 million in negative subsidies. Under current law, starting in 2019 when OPIC will be unable to enter into new contracts, CBO estimates that negative subsidies will begin to decline and will disappear by 2025.

On the basis of information from the Administration and adjusting for projected growth under the higher ceiling on outstanding liability, CBO estimates that under H.R. 5105 negative subsidies would total $265 million in 2020—$170 million above the current-law amount for that year and $916 million for the 2020-2023 period.

Equity Investments. H.R. 5105 would authorize USIDFC to invest, either directly or through investment funds, in projects in less developed countries. Under the bill, the proceeds from the eventual sale of those investments, including any accumulated earnings, would be returned to USIDFC. H.R. 5105 does not specify, and CBO cannot determine, whether those proceeds would be available for further spending. If they became available, CBO would treat those effects as direct spending.

The current budgetary treatment of investing federal funds in nonfederal securities is specified in Circular A-11, published by the Office of Management and Budget.[2] Under that treatment, the purchase of private securities is to be recorded as an outlay at the time of purchase and in the amount of the face value of the purchase. Upon the sale of such securities, CBO expects that the proceeds would be recorded as discretionary offsetting collections.

CBO expects investments in private securities probably would accrue earnings over the period they are held. With the potential for greater rates of return, government investments in private securities could increase the expected value of budgetary resources, but such investments also would expose the government, future taxpayers, and beneficiaries of federal programs to greater risk. Investments in less developed countries may be riskier than investments in other private securities. When that risk is taken into account, the returns on private securities would be no greater than the returns on government securities, CBO estimates. In addition, the Department of the Treasury would have to pay interest on the additional borrowing necessary to purchase private securities. In CBO's view, any earnings that result from private investments are equivalent to changes in net interest costs; such earnings are not shown in this estimate because, based on long-standing precedents, CBO does not include in cost estimates the net interest costs associated with the estimated budgetary effects of legislation.

OPIC currently provides loan guarantees to investment funds, and the Administration indicated that it would build on that experience by implementing equity investing through investment funds, rather than through direct investments. The Administration also indicated that it could eventually invest up to a few hundred million dollars a year. On the basis of that information and adjusting for a phase-in period, CBO estimates that implementing the authority to invest in equities would require additional appropriations of $50 million in 2020, growing to $250 million in 2023, for a total cost of $525 million over the 2020-2023 period. CBO expects that USIDFC would retain those investments for a period of 8 to 10 years before deciding to sell; thus, the proceeds from such sales would probably not be returned to USIDFC until after 2028.

2. See Office of Management and Budget, *Preparation, Submission, and Execution of the Budget,* Circular A-11 (June 2018), www.whitehouse.gov/omb/circulars.

Other Assistance. The bill would authorize USIDFC to undertake business promotion activities such as feasibility studies and technical assistance to help projects acquire USIDFC financing. H.R. 5105 also would allow USIDFC to administer ancillary programs and projects to support its financing activities, such as providing grants or technical support for small businesses. On the basis of information from the Administration about its 2019 budget request for such activities, CBO estimates that implementing those provisions would require additional appropriations of about $15 million a year and cost $53 million over the 2020-2023 period.

Fees for Activities Related to Specific Projects. H.R. 5105 would authorize USIDFC to charge and retain fees for services, subject to future appropriations action. In addition to its fees for loans and insurance, OPIC charges fees for certain administrative transactions related to specific projects, such as travel and legal work. The vast majority of the fees are collected at the start of the project and under current law CBO expects such collections will end starting in 2019. Under current practice, fees for insurance products are treated as discretionary offsetting collections; however, fees for loans and loan guarantees are currently deposited into loan financing accounts, which are off-budget. Under the bill, both types of fees would be treated as discretionary offsetting collections. On the basis of information about fees collected in recent years, CBO estimates that those collections under the bill would total $34 million in 2020 and $139 million over the 2020-2023 period. Under H.R. 5105, spending on the underlying activity associated with these fees would be treated as direct spending and is discussed under that heading below.

Inspector General. Section 104 would establish an inspector general (IG) for USIDFC. Currently, the IG for USAID covers the programs being folded into USIDFC. Based on information from the Administration about costs for personnel, contract staff, office space, travel, and other expenses and adjusting for reduced costs for the USAID IG, CBO estimates that implementing that requirement would have a net cost of $3 million a year over the 2020-2023 period, assuming appropriation of the necessary amounts.

Insurance Premiums. OPIC's current insurance programs offer protection against political risks associated with investing overseas, such as expropriation, terrorism, political violence or civil strife, and currency inconvertibility. The average policy term is about 11 years, and collections from premiums are $10 million each year. Under the bill, in addition to absorbing OPIC's insurance portfolio, USIDFC would be allowed to sell insurance to international financial institutions and development finance institutions from other countries. On the basis of information from the Administration, and adjusting for projected growth under the bill, CBO estimates that under this provision USIDFC would collect an additional $5 million in insurance premiums over the 2020-2023 period. Payments made for insurance claims are treated as direct spending and are discussed under that heading below.

Direct Spending

CBO estimates that enacting H.R. 5105 would increase direct spending by $113 million over the 2019-2028 period (see Table 3 below).

TABLE 3. CHANGES IN DIRECT SPENDING UNDER H.R. 5105, THE BUILD ACT OF 2018

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
INCREASES IN DIRECT SPENDING													
Activities Related to Specific Projects													
Estimated Budget Authority	0	0	12	12	13	13	14	14	14	11	9	50	112
Estimated Outlays	0	0	12	12	13	13	14	14	14	11	9	50	112
Insurance Claim													
Estimated Budget Authority	0	0	*	*	*	*	*	*	*	*	*	*	1
Estimated Outlays	0	0	*	*	*	*	*	*	*	*	*	*	1
Total Changes in Direct Spending													
Estimated Budget Authority	0	0	12	12	13	13	14	14	14	11	9	50	113
Estimated Outlays	0	0	12	12	13	13	14	14	14	11	9	50	113

Components may not sum to totals because of rounding; * = between zero and $500,000.

Activities Related to Specific Projects. As described under Spending Subject to Appropriation, H.R. 5105 would authorize USIDFC to undertake certain administrative transactions related to specific projects. Under current law, OPIC has spent roughly $24 million a year on such transactions; however, starting in 2019 when OPIC's authorization expires, CBO expects that spending will end. The bill would narrow the scope of such activity to travel, legal expenses, and claims settlement. CBO estimates that fees charged for those purposes would exceed spending. Although the bill clearly specifies that the fees would be collected subject to appropriation, it would allow USIDFC to perform underlying activities without prior appropriation action. On the basis of information about such activity in recent years, CBO estimates that USIDFC would spend $12 million in 2020; that amount would grow to $14 million in 2024 and start to decline in 2025 when USIDF's authorization would expire. In total, CBO estimates, enacting the bill would increase direct spending by $112 million over the 2020-2028 period.

Insurance Claims. Using information from the Administration about OPIC's current insurance portfolio and adjusting for new insurance policies under the bill, CBO estimates that USIDFC would pay small amounts each year in additional claims, resulting in an increase in direct spending of less than $500,000 each year and totaling $1 million over the 2020-2028 period.

Interest Earned on Treasury Securities. Section 304 would authorize the USIDFC to invest balances in securities of the federal government and to use the resulting interest earnings for its ongoing programs. Under current law, OPIC has similar authority. Under a long-standing convention, OPIC's interest earnings are credited to the House and Senate Appropriations Committees as discretionary offsetting collections, thereby reducing OPIC's need for appropriations.

Under the bill, CBO would treat interest earnings from OPIC's reinvestments and new investments made by USIDFC as mandatory offsetting collections, in accordance with the principle that interest on federal securities is an intragovernmental transfer (the interest is paid by the Treasury and thus appears as an offsetting payment elsewhere in the federal budget).

USIDFC would spend its interest earnings on project-specific transactions and insurance claims, as described above. That spending would be treated as direct spending.

Other Provisions. H.R. 5105 would allow USIDFC to accept gifts and donations to carry out its functions and would require the agency to seek cost sharing or reimbursements for business promotion activities such as feasibility studies and technical assistance. CBO estimates that enacting those provisions would have insignificant net effects on direct spending.

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 those pay-as-you-go procedures are shown in Table 4.

TABLE 4. CBO ESTIMATE OF PAY-AS-YOU-GO EFFECTS FOR H.R. 5105 AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON FOREIGN AFFAIRS ON MAY 9, 2018

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2018-2023	2018-2028
NET INCREASE IN THE DEFICIT													
Statutory Pay-As-You-Go Effect	0	0	12	12	13	13	14	14	14	11	9	50	113

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 5105 would not increase net direct spending by more than $2.5 billion or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2029.

MANDATES

H.R. 5105 contains no intergovernmental or private-sector mandates as defined in UMRA.

ESTIMATE PREPARED BY

Federal Costs: Sunita D'Monte
Mandates: Jon Sperl

ESTIMATE REVIEWED BY

Sarah Jennings
Chief, Defense, International Affairs, and Veterans' Affairs Cost Estimate Unit

Leo Lex
Deputy Assistant Director for Budget Analysis

Theresa Gullo
Assistant Director for Budget Analysis