CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 22, 2003

S. 824
Aviation Investment and Revitalization Vision Act

As reported by the Senate Committee on Commerce, Science, and Transportation on May 2, 2003

SUMMARY

S. 824 would authorize appropriations for programs administered by the Federal Aviation Administration (FAA) mainly over the 2004-2006 period. CBO estimates that implementing S. 824 would result in discretionary outlays totaling about $34.3 billion over the next five years. That total assumes appropriation action consistent with the amounts that would be authorized by the bill and the levels of new contract authority (a mandatory form of budget authority) it would provide for aviation programs.

We also estimate that enacting the bill would increase direct spending by $864 million over the 2004-2008 period and by $1.7 billion over the next 10 years. Those amounts include the cost of extending the FAA's terrorism insurance program through calendar year 2006, expanding that program to include manufacturers of aircraft and engines, and implementing a new $500 million-per-year airport security program.

S. 824 could affect tax-exempt financing by encouraging more smaller airports to assess passenger facility fees. The Joint Committee on Taxation (JCT) expects that this provision would result in an increase in tax-exempt financing for construction at airports and a subsequent loss of federal revenue. JCT estimates that the revenue loss would be $3 million over the 2004-2008 period and $11 million over the 2004-2013 period.

S. 824 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). Any costs incurred by state and local governments would result from complying with conditions of federal aid.

S. 824 would impose private-sector mandates as defined in UMRA on regulated lending institutions and air carriers. The cost to comply with those mandates would exceed the annual threshold established by UMRA for private-sector mandates ($117 million in 2003, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

Over the 2004-2008 period, CBO estimates that implementing S. 824 would cost about $34.3 billion, assuming appropriation action consistent with the bill. In addition, CBO and JCT estimate that enacting the bill would increase direct spending by $863 million and reduce revenues by $3 million over the 2004-2008 period. The estimated budgetary impact of S. 824 is shown in Table 1. The costs of this legislation fall within budget function 400 (transportation).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF S. 824

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Budget Authority [a]	10,160	0	0	0	0	0
Estimated Outlays [b]	13,364	5,752	3,871	3,601	3,485	3,457
Proposed Changes:						
FAA Operations						
Estimated Authorization Level	0	7,591	7,732	7,889	0	0
Estimated Outlays	0	6,756	7,716	7,872	868	0
Air Navigation Facilities and Equipment						
Estimated Authorization Level	0	2,916	2,971	3,030	0	0
Estimated Outlays	0	1,254	2,444	2,783	1,655	481
Research, Engineering, and Development						
Estimated Authorization Level	0	289	304	317	0	0
Estimated Outlays	0	159	265	310	141	35
Airport Improvement Program (AIP)[c]						
Estimated Authorization Level	0	0	0	0	0	0
Estimated Outlays	0	-6	26	94	167	197
Other						
Estimated Authorization Level	0	239	240	290	228	155
Estimated Outlays	0	156	230	256	243	169
Total Proposed Changes						
Estimated Authorization Level	0	11,035	11,247	11,526	228	155
Estimated Outlays	0	8,319	10,682	11,313	3,074	881
Spending Under S. 824						
Estimated Authorization Level[a]	10,160	11,035	11,247	11,526	228	155
Estimated Outlays	13,364	14,071	14,553	14,914	6,558	4,339

Continued

TABLE 1. Continued

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
DIRECT SPENDING						
Baseline Spending Under Current Law						
Estimated Budget Authority[c]	3,333	3,518	3,762	3,637	3,564	3,527
Estimated Outlays	-39	140	384	258	186	149
Proposed Changes:						
AIP Authorization[c]						
Estimated Budget Authority	0	22	122	222	222	222
Estimated Outlays	0	0	0	0	0	0
Terrorism Risk Insurance						
Estimated Budget Authority	0	-3	-38	172	478	414
Estimated Outlays	0	-3	-38	172	478	414
Aviation Security Program						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	-415	-205	-95	370	185
Spending Under S. 824						
Estimated Budget Authority[c]	3,333	3,537	3,846	4,031	4,264	4,163
Estimated Outlays	-39	-278	141	335	1,034	748
CHANGES IN REVENUES						
Estimated Revenues	0	*	*	*	-1	-1

a. The 2003 level is the amount appropriated for that year for FAA's operations account; facilities and equipment account; research, engineering, and development account; and essential air service.

b. Estimated outlays under current law are from amounts appropriated for 2003 and previous years for the FAA operations account and the facilities and equipment account, as well as the discretionary outlays from the obligation limitations for the Airport Improvement Program, as assumed to continue in the budget resolution baseline (adopted in April 2003).

c. Budget authority for AIP is provided as contract authority, a mandatory form of budget authority; however, outlays from AIP contract authority are subject to obligation limitations contained in appropriation acts and are therefore discretionary.

* = less than $500,000.

BASIS OF ESTIMATE

Implementing S. 824 would increase spending subject to appropriation. Enacting the bill also would increase direct spending and reduce revenues. Outlay estimates are based on historical spending patterns for the affected programs and on information provided by the Department of Transportation and FAA staff.

Spending Subject to Appropriation

For purposes of this estimate, CBO assumes that S. 824 will be enacted before the start of fiscal year 2004 and that the amounts authorized for aviation programs will be appropriated for each fiscal year.

FAA Operations. The bill would authorize the appropriation of $23.2 billion for FAA operations over the 2004-2006 period. CBO estimates that appropriation of the amounts specified in the bill would cost $23.2 billion over the 2004-2008 period.

FAA Air Navigation Facilities and Equipment. S. 824 would authorize the appropriation of about $2.9 billion for fiscal year 2004, $3 billion for 2005, and $3 billion for 2006 for facilities and equipment. CBO estimates that appropriation of those amounts would cost $8.6 billion over the next five years.

FAA Research, Engineering, and Development. S. 824 would authorize the appropriation of $289 million for 2004, $204 million for 2005, and $317 million for 2006 for research, engineering, and development. CBO estimates that appropriation of the authorized amounts would cost $910 million over the next five years.

FAA Airport Improvement Program. Title I would provide $10.5 billion in contract authority (a mandatory form of budget authority) over the 2004-2006 period for the airport improvement program (AIP). Consistent with section 257 of the Balanced Budget and Energy Deficit Control Act, which specifies that certain expiring programs be assumed to continue for budget projection purposes, we estimate that the projected total of contract authority for AIP would be $17.7 billion over the 2004-2008 period. That total is $810 million above the amounts projected in the current budget resolution baseline. (See the discussion of AIP under "Direct Spending," below, for more details.)

Assuming that the obligation limitations of AIP spending, as set forth in annual appropriation acts, are equal to the projected contract authority amounts for each year, CBO estimates that implementing this provision would cost $477 million over the 2004-2008 period. In addition, S. 824 would change the composition of AIP spending, thereby reducing outlays below the baseline level in 2004.

Other Provisions. CBO estimates that implementing other programs that would be authorized by S. 824 would cost a total of about $1.1 billion over the 2004-2008 period.

Title III would authorize the appropriation of $63 million a year over the 2004-2007 period for the Essential Air Service program in addition to $50 million a year that is available to this program under current law. The title also would authorize $12 million each year over the same period for a marketing incentive program for communities participating in this program. Based on historical outlay patterns of this program, CBO estimates that these two provisions would cost $300 million over the 2004-2008 period.

Section 520 would authorize the appropriation of such sums as may be necessary to improve emergency electric power systems at FAA sites. Based on information from the FAA and industry research, CBO estimates that this provision would cost $385 million over the 2004-2008 period.

Section 622 would establish an office within the FAA to develop plans for managing the air traffic system. The section would authorize a total of $300 million over the 2004-2010 period for the office. Based on historical spending patterns for FAA operations, CBO estimates that implementing this provision would cost $205 million over the 2004-2008 period.

S. 824 also would reauthorize the small community air service development program, authorize navigation and surveillance services in the Gulf of Mexico, and provide specialized navigational aids to certain airports in challenging terrain. CBO estimates that those provisions would cost $148 million over the 2004-2008 period, assuming appropriation of the necessary amounts. Finally, the bill would authorize other miscellaneous provisions that we estimate would cost $13 million over the 2004-2008 period, including grants and student loans to increase the number of students in fields related to aerospace and aviation safety.

Direct Spending

S. 824 would extend and expand the terrorism insurance program for commercial airlines that is currently offered by the FAA, provide additional contract authority for the Airport Improvement Program, and increase spending on capital improvements for aviation security. CBO estimates that enacting S. 824 would increase outlays from direct spending by $864 million over the 2004-2008 period and about $1.7 billion over the 2004-2013 period. The 10-year cost of those provisions is summarized in Table 2.

TABLE 2. SUMMARY OF EFFECTS ON DIRECT SPENDING AND REVENUES UNDER S. 824

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	19	84	394	700	636	504	413	338	284	267
Estimated Outlays	-418	-243	77	848	599	377	236	136	62	45
CHANGES IN REVENUES										
Changes in Revenues	0	0	0	-1	-1	-1	-1	-2	-2	-2

Airport Improvement Program. S. 824 would provide $10.5 billion in contract authority over the 2004-2006 period for the airport improvement program. Consistent with the Balanced Budget and Emergency Deficit Control Act, we estimate that the projected total of contract authority would be $17.7 billion over the 2004-2008 period and $35.7 billion over the 2004-2013 period. Those totals are about $0.8 billion and $1.9 billion, respectively, above the amounts projected in the baseline. The bill also would extend the authority of the Secretary of Transportation to incur obligations to make grants under the AIP program.

Under current law, AIP has about $3.4 billion of contract authority available in 2003. Relative to the baseline, enacting title I would increase contract authority by $22 million in fiscal year 2004 and by a total of $366 million over the 2004-2006 period. As noted above, although S. 824 specifies contract authority only through 2006, section 257 of the Balanced Budget and Emergency Deficit Control Act requires CBO to assume that contract authority for AIP would continue (for baseline purposes) through the entire 2004-2013 period. Under that requirement, the estimated level of contract authority would remain at $3.6 billion a year over the 2007-2013 period. That amount would exceed the amount assumed in the current baseline for those years by $222 million a year. Hence, CBO estimates S. 824 would increase contract authority—above baseline levels—by $1.55 billion over the 2007-2013 period.

Expenditures from AIP contract authority are governed by obligation limitations contained in annual appropriation acts and are categorized as discretionary spending. For this estimate, we assume that appropriation acts will set obligation limitations for AIP equal to the annual levels of contract authority.

Current law provides for increases to AIP contract authority in any year that the amounts authorized to be appropriated for FAA's facilities and equipment account are greater than the amounts actually provided in appropriation acts for that program. By authorizing amounts for facilities and equipment over the 2004-2006 period, S. 824 would authorize adjustments to AIP contract authority for those years as well. Any adjustment would constitute new direct spending authority, and all spending for AIP—including spending triggered by such adjustments—would still be subject to obligation limitations established in appropriation acts. Although S. 824 could result in additional AIP contract authority of as much as $8.9 billion over the 2004-2006 period if no appropriations were provided for facilities and equipment, CBO assumes that appropriations will equal or exceed authorized amounts; thus, we assume no increases to contract authority would be made under this provision.

Terrorism Risk Insurance. Under current law, the FAA offers insurance to air carriers against liability arising from losses caused by terrorist events. The FAA's aviation terrorism insurance program is scheduled to end on December 31, 2004. S. 824 would extend the authorization for that program through December 31, 2006. S. 824 also would authorize the FAA to expand the program by offering insurance coverage to companies that manufacture aircraft and aircraft engines. CBO estimates that the net cost of providing insurance to air carriers and manufacturers through December 31, 2006, would be about $1 billion over the 2004-2008 period and about $1.7 billion over the 2004-2013 period.

Currently, the FAA collects premiums from air carriers in exchange for certain insurance coverage. Under the bill, the government also would collect premiums from aircraft and aircraft engine manufacturers. Such premiums are recorded as an offset to direct spending in the year that they are collected. CBO estimates that under S. 824, the FAA would collect about $400 million in additional premiums over the 2004-2008 period. CBO expects that the cost of providing insurance, however, would be much greater than premiums collected. CBO estimates that payments for expected net losses under the FAA insurance program would cost about $2.1 billion over the 2004-2013 period.

CBO cannot predict how much insured damage terrorists might cause in any specific year. Instead, our estimate of the cost of the insurance coverage under S. 824 represents an expected value of payments from the program—a weighted average that reflects the probabilities of various outcomes, from zero damages up to very large damages due to possible future terrorist attacks. The expected value can be thought of as the amount of an insurance premium that would be necessary to just offset the risk of providing this insurance; indeed, our estimate of the expected cost for S. 824 is based on private-sector premiums for terrorism insurance that have been adjusted for differences in costs faced by private insurance firms that are not borne by the federal government. While this cost estimate reflects CBO's best judgment on the basis of available information, costs are a function of inherently unpredictable future terrorist attacks. As such, actual costs could fall anywhere within an extremely broad range.

Aviation Security Program. Section 402 would establish a fund within the Department of Transportation to provide grants to airports for the capital costs of security improvements of airport facilities. For such grants, S. 824 would authorize the collection and spending of $500 million a year of fees from airline passengers over the 2004-2006 period.

Based on historical spending patterns of FAA grant programs, CBO estimates that this provision would have a gross cost of about $1.3 billion over the 2004-2008 period and $1.5 billion over the 2004-2013 period. Over the next five years, we estimate the provision would produce net savings of $160 million as fees collected would exceed the amount spent. Over the 2004-2013 period, however, we estimate this provision would have no net cost.

The cost of the new program would be completely offset by fee collections authorized under section 402. Under current law, the Transportation Security Administration (TSA) collects a $2.50 fee from airline passengers each time they board an aircraft (with a maximum of $5.00 per one-way trip). Such fees may only be collected to the extent provided for in advance in appropriations acts and are recorded as an offset to appropriated spending. Section 402 would require the TSA to collect up to $500 million a year from passengers without further appropriation action. (To the extent that S. 824 causes such fees to be collected for capital grants, such fees would not be available to reduce the costs of TSA spending.) CBO estimates that under section 402, the TSA would collect $500 million each year.

Other Direct Spending. CBO estimates that other provisions of S. 824 would have a negligible effect on direct spending. For instance, the bill would allow the FAA to accept fees from airport operators in order to hire more attorneys and environmental specialists to expedite the planning and environmental review of runway construction projects. Based on the number of airport operators that are likely to participate and the cost of qualified employees, CBO estimates that the FAA would collect about $3 million a year over the 2004-2008 period. Those payments could then be spent, without further appropriation, to plan and conduct environmental reviews. Because the additional collections and spending would be approximately equal in each year, we estimate that the net impact on direct spending of this provision would be negligible.

Revenues

By simplifying application procedures, enacting title II could encourage more smaller airports to seek authority from the Secretary of Transportation to charge passenger facility fees. The Joint Committee on Taxation expects that those provisions would result in an increase in tax-exempt financing for airport construction and a subsequent loss of federal revenue. The JCT estimates that the revenue loss would be $3 million over the 2004-2008 period and $11 million over the 2004-2013 period (see Table 2).

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 824 contains no intergovernmental mandates as defined in UMRA. Airports that the Secretary of Transportation determines must expand capacity would have to comply with various requirements, but any costs incurred by state and local governments in complying with such requirements would be conditions of federal aid. Among several benefits to airports, the bill would create the Aviation Security Capital Fund to provide assistance with capital expenditures and would authorize nonhub airports to use passenger facility charges to fund FAA-approved projects. The bill also would prohibit FAA or the Department of Homeland Security from requiring airports to provide space and related services at no cost.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 824 would impose private-sector mandates as defined in the UMRA on regulated lending institutions and air carriers. The cost to comply with those mandates would exceed the annual threshold established by UMRA for private-sector mandates ($117 million in 2003, adjusted annually for inflation).

Noise Disclosure Requirement

Title II would require regulated lending institutions to ensure that a loan applicant's purchase agreement includes a notice that an airport is nearby if the residential real estate or the mobile home is located in the vicinity of an airport. If the seller has not provided that information to the purchaser, the regulated lending institution would be required to provide it before making, increasing, extending, or renewing a loan. The bill defines a regulated lending institution as a bank, savings and loan association, credit union, farm credit bank, federal land bank association, production credit association, or similar institution subject to the supervision of a federal entity for lending regulation. The lending institutions also would be required to retain a record of those notices. Based on information from government and industry sources, CBO estimates the cost to comply with the mandate would exceed the annual threshold for private-sector mandates.

Improving Air Service

Title III would include requirements and programs to improve air service with a focus on essential air service. Essential air service is subsidized airline service to small areas so that those communities would retain a link to the national air transportation system.

Tracking Service. The bill would require essential air service providers to track changes in their service, including on-time arrivals and departures. Based on information from the Department of Transportation, the regional air carriers that provide essential air service currently maintain this information and, therefore, CBO estimates that the cost to track the information would not be great.

Reducing Delays. The bill would authorize the Secretary of Transportation to implement the following requirements if the Federal Aviation Administration and the Secretary determines that they would improve air transportation services. Under title III air carriers may be required to participate in discussions with the FAA about reducing flight delays at severely congested airports and during periods of inclement weather. Based on information from representatives for the air carriers, CBO estimates that the costs would be minimal.

Code-share Arrangements. In addition, the bill would authorize the Secretary to require air carriers to participate in multiple code-share arrangements under a pilot program. A code-share arrangement is a marketing practice in which two airlines share the same two-letter code used to identify carriers in the computer reservation systems used by travel agents. If the Secretary requires the air carriers to participate in those code-share arrangements, the air carriers would need to negotiate agreements and update their computer systems. CBO has no basis for estimating the costs of this mandate.

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