CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

January 10, 2006

S. 1102
A bill to extend the aviation war risk insurance program for three years

As ordered reported by the Senate Committee on Commerce, Science, and Transportation on November 17, 2005

SUMMARY

S. 1102 would extend, through December 31, 2008, the Federal Aviation Administration's (FAA's) authority to offer insurance to air carriers and certain manufacturers against liability arising from losses caused by terrorist events. CBO estimates that enacting S. 1102 would increase direct spending by $710 million over the 2007-2015 period. Enacting the bill would not affect revenues.

S. 1102 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. 1102 is shown in the following table. The costs of this legislation fall within budget function 400 (transportation).

	By Fiscal Years, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	0	-125	5	270	210	140	100	60	30	20
Estimated Outlays	0	-125	5	270	210	140	100	60	30	20

BASIS OF ESTIMATE

The FAA offers insurance to air carriers and manufacturers of aircraft and aircraft engines against liability arising from losses caused by terrorist events. Under the Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, 2006 (Public Law 109-115), the FAA already has authority to offer that insurance through December 31, 2006. S. 1102 would extend the FAA's authority to offer terrorism insurance through December 31, 2008. Assuming the agency would provide insurance through that date, we estimate that the net cost to the federal government would total $710 million over the 2007-2015 period.

Currently, the FAA collects premiums from air carriers and manufacturers in exchange for insurance coverage. Such premiums are recorded as an offset to direct spending in the year that they are collected. Based on information from the FAA about rates charged for coverage, CBO estimates that under S. 1102, the agency would collect about $340 million in additional premiums over the 2007-2008 period. CBO expects that the potential cost of providing insurance, however, would be much greater than premiums collected. CBO estimates that payments for expected losses under the FAA insurance program would cost nearly $1.1 billion over the 2007-2015 period, with residual spending in later years.

CBO cannot predict how much insured damage terrorists might cause to air carriers and aircraft engine manufacturers in any specific year. Instead, our estimate of the cost of the insurance coverage under S. 1102 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. 1102 is based on actual premiums for terrorism insurance that have been paid by non-U.S. air carriers that must purchase such insurance from the private sector. Our estimate also takes into account 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.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1102 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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