CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 12, 2005

H.R. 1631
Rail Infrastructure Development and Expansion Act for the 21st Century

As ordered reported by the House Committee on Transportation and Infrastructure on April 27, 2005

SUMMARY

H.R. 1631 would authorize states to issue $12 billion in tax-exempt bonds and $12 billion in tax-credit bonds to finance infrastructure for high-speed-rail transportation projects. The Joint Committee on Taxation (JCT) estimates that those two provisions would lower revenues by $854 million over the 2006-2010 period and by about $4.2 billion over the next 10 years.

In addition to authorizing the bonds, H.R. 1631 would expand the Railroad Rehabilitation and Improvement Financing (RRIF) program. This program authorizes the Federal Railroad Administration (FRA) to provide direct loans and loan guarantees for the development of railroad infrastructure. H.R. 1631 would raise the ceiling on the total amount of outstanding loans or loan guarantees authorized under the RRIF program from $3.5 billion to $35 billion. CBO estimates that additional direct spending under this provision would be insignificant until after 2015. Pursuant to section 407 of H. Con. Res. 95 (the Concurrent Resolution on the Budget, Fiscal Year 2006), CBO estimates that enacting H.R. 1631 would be unlikely to cause an increase in direct spending greater than $5 billion in any of the next four 10-year periods after 2015.

Finally, H.R. 1631 would authorize the appropriation of $100 million each year over the 2006-2013 period to provide grants to public agencies for developing high-speed-rail corridors and for improving the technology for high-speed-rail systems. Assuming appropriation of the authorized amounts, CBO estimates that implementing those provisions would cost $253 million over the 2006-2010 period and another $547 million after 2010.

CBO has reviewed the nontax provisions of H.R. 1631 and determined that they contain no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA); any costs to state, local, or tribal governments would be incurred voluntarily.

JCT has reviewed section 3 of H.R. 1631 and has determined that those provisions contain no intergovernmental or private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1631 is shown in the following table. The costs of this legislation fall within budget function 400 (transportation).

	By Fiscal Year, in Millions of Dollars					
	2005	2006	2007	2008	2009	2010
CHANGES IN REVENUES						
Estimated Revenues	0	-18	-74	-154	-251	-357
SPENDING SUBJECT TO APPROPRIATION[a]						
Spending Under Current Law for High-Speed-Rail Programs						
Budget Authority[b]	19	0	0	0	0	0
Estimated Outlays	29	24	18	13	6	0
Proposed Changes						
Authorization Level	0	100	100	100	100	100
Estimated Outlays	0	14	26	42	71	100
Spending Under H.R. 1631 for High-Speed-Rail Programs						
Authorization Level[b]	19	100	100	100	100	100
Estimated Outlays	29	38	44	55	77	100

SOURCES: Congressional Budget Office and the Joint Committee on Taxation.

a. Enacting the bill also would increase direct spending, but CBO estimates those effects would not be significant over the 2006-2015 period.

b. The 2005 level is the amount appropriated for that year.

BASIS OF ESTIMATE

Enacting H.R. 1631 would lower revenues by authorizing states to sell tax-exempt and tax-credit bonds. Implementing H.R. 1631 would increase spending on grants to develop high-speed-rail corridors and improvements in technology for high-speed rail. This spending would be subject to appropriation. Enacting H.R. 1631 would increase direct spending after 2015 by expanding the RRIF program.

Revenues

Enacting H.R. 1631 would lower revenues to the federal government by authorizing states to issue $12 billion in tax-exempt and tax-credit bonds. The 10-year cost of the bond provisions is summarized in the following table.

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN REVENUES										
Tax-Exempt Bonds	-4	-16	-32	-51	-71	-92	-112	-131	-149	-168
Tax-Credit Bonds	-14	-58	-122	-200	-286	-376	-461	-541	-617	-694
Total Changes in Revenues	-18	-74	-154	-251	-357	-468	-573	-672	-766	-862

Tax-Exempt Bonds. H.R. 1631 would authorize states to issue $1.2 billion in tax-exempt bonds each year over the 2006-2015 period, and states would use the bond proceeds to finance infrastructure for high-speed-rail projects. States would pay both principal and interest to bondholders; however, interest on the tax-exempt bonds would be excluded from federal income taxes, lowering revenues to the federal government. JCT estimates that the additional tax-exempt bonds that would be authorized under the bill would lower revenues by $174 million over the 2006-2010 period and by $826 million over the next 10 years.

Tax-Credit Bonds. H.R. 1631 would authorize states to issue $1.2 billion in tax-credit bonds each year over the 2006-2015 period and use the bond proceeds to finance infrastructure for high-speed-rail projects. States would repay only the principal to bondholders; the federal government would provide interest to the bondholders in the form of credits against their federal income tax liability, thus lowering revenues to the federal government.[1] JCT estimates that the tax-credit bonds would lower revenues by $680 million over the 2006-2010 period and by $3.4 billion over the next 10 years.

1. Providing tax credits has the same impact on the federal budget as outlays for interest costs. For a more complete discussion of the potential use of tax-credit bonds for transportation programs, see *A Comparison of Tax-Credit Bonds, Other Special-Purpose Bonds, and Appropriations in Financing Federal Transportation Programs*, Congressional Budget Office, June 2003, available at www.cbo.gov.

Spending Subject to Appropriation

For this estimate, CBO assumes that H.R. 1631 will be enacted this fall and that amounts authorized will be appropriated for each year. Outlay estimates are based on historical spending patterns and information from FRA.

High-Speed-Rail Corridors. Under current law, FRA provides grants to public agencies for planning corridors for high-speed-rail projects. H.R. 1631 would authorize the appropriation of $70 million each year over the 2006-2013 period for this program, and the bill would allow agencies to use grants for acquiring locomotives, rolling stock, track, and signal equipment. CBO estimates that extending this grant program would cost $177 million over the 2006-2010 period and another $383 million after 2010, assuming appropriation of the authorized funds.

Technology for High-Speed Rail. H.R. 1631 would authorize the appropriation of $30 million each year over the 2006-2013 period to continue FRA's program aimed at improving high-speed-rail technology. CBO estimates this provision would cost $76 million over the 2006-2010 period and another $164 million after 2010, assuming appropriation of the authorized funds.

Direct Spending

Under the RRIF program, FRA provides direct loans and loan guarantees for the development of railroad infrastructure. H.R. 1631 would increase the total amount of outstanding loans or loan guarantees authorized under the RRIF program from $3.5 billion to $35 billion. CBO estimates that the RRIF program operates at a net cost to the federal government; however, because we expect that the total level of loans and loan guarantees is unlikely to exceed the program's existing authority until after 2015, CBO estimates that enacting H.R. 1631 would not result in any significant additional costs for this program over the next 10 years.

Under the RRIF program, borrowers can pay a premium to the government to cover the estimated subsidy cost of their loans, thus securing a loan or loan guarantee without further appropriation. After borrowers have repaid their loans, current law requires the government to return the amount of premiums that exceeded the actual subsidy cost of their loans and guarantees. The government is not authorized to collect additional money, however, if the premiums do not fully cover the subsidy cost of the loans and loan guarantees. This asymmetry in the program structure is the reason why CBO expects that RRIF is likely to have a net cost to the government over many years. The actual subsidy cost of each loan or loan guarantee made under the RRIF program may be higher or lower than what FRA initially collects from the borrower; however, after the excess premiums have been repaid, some premiums may be lower than the actual subsidy cost, but none will be higher.

The RRIF program was authorized in 1998 by the Transportation Equity Act for the 21st Century. Since 1998, FRA has approved 10 loans and disbursed $425 million. Based on information from FRA, railroad associations, and railroads, CBO does not expect that FRA will disburse more than the $3.5 billion in loan principal authorized under current law before 2015. The bill would restrict the Administration from requiring applicants to offer collateral or seek financial assistance from other sources before applying for credit under RRIF. Although those changes to the program might increase demand for credit under RRIF, CBO expects that over the next 10 years, railroads are still likely to apply for relatively small loans in comparison to the size of the program under current law.

Although costs after 2015 could be significant, CBO estimates that enacting the bill would be unlikely to cause an increase in direct spending greater than $5 billion in any of the four 10-year periods following 2015. While the amount of loans and guarantees made in the decades after 2015 might total more than $30 billion, the budgetary impact would be a much smaller amount because only the subsidy cost would appear as an outlay on the budget.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

CBO has reviewed the nontax provisions of H.R. 1631 and determined that they contain no intergovernmental or private-sector mandates as defined in UMRA. States that would be authorized to issue federally tax-exempt and tax-credit bonds would be participating in a voluntary federal program; any costs they face would be incurred voluntarily. State and local governments generally would benefit from using bonds, grants, loans, and loan guarantees to finance high-speed-rail projects.

JCT has determined that the tax provisions in H.R. 1631 contain no intergovernmental or private-sector mandates as defined in UMRA.

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