



CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 4, 1998

S. 1758

Tropical Forest Conservation Act of 1998

As ordered reported by the Senate Committee on Foreign Relations on May 19, 1998

SUMMARY

S. 1758 would authorize the Secretary of State to negotiate agreements with eligible countries to create local funds administered by local boards with the authority to make grants to preserve, maintain, and restore tropical forests. The local funds would receive a stream of interest payments generated by modifying the terms of outstanding debt owed to the United States for development assistance or food aid. In addition, S. 1758 would authorize the President to sell development assistance or food-aid debt to eligible investors to use in debt-for-nature swaps. The bill would authorize the appropriation of \$325 million over the fiscal years 1999-2001 for the cost of such modifications and sales. CBO estimates that outlays totaling that amount would be recorded over the 1999-2003 period.

The bill would also authorize the President to sell debt back to an eligible country, notwithstanding any other provision of law and without appropriation action. Sales to eligible countries would therefore increase direct spending to the extent that sale prices are less than the value of the debt. CBO estimates that this provision would have no cost in 1999 but that costs would total about \$150 million over the 2000-2006 period. Because S.1758 would affect direct spending, pay-as-you-go procedures would apply.

The bill 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. 1758 is shown in the following table. The costs of this legislation fall within budget function 150 (international affairs).

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Debt Restructuring						
Budget Authority ^a	27	0	0	0	0	0
Estimated Outlays	31	15	1	0	0	0
Proposed Changes						
Authorization Level	0	50	125	150	0	0
Estimated Outlays	0	23	81	133	81	8
Spending Under S. 1758 for Debt Restructuring						
Authorization Level ^a	27	50	125	150	0	0
Estimated Outlays	31	38	82	133	81	8
DIRECT SPENDING						
Proposed Changes						
Estimated Budget Authority	0	0	25	50	35	20
Estimated Outlays	0	0	25	50	35	20

a. The 1998 level is the amount appropriated for that year.

BASIS OF ESTIMATE

S. 1758 would authorize spending subject to appropriation action and provide indefinite authority to sell certain outstanding direct loans.

Spending Subject to Appropriation. The bill would authorize the appropriation of \$325 million over the fiscal years 1999-2001 for the cost of modifying debt so as to reduce principal and to divert interest payments to local conservation funds. The estimate assumes appropriation of the authorized amounts over the next three years. Those sums represent the present value of the debt that would be reduced and the interest that would be diverted to local funds. Outlays would be recorded at the time outstanding debts are modified. The estimate assumes it would take from one to three years to negotiate agreements with eligible countries and to sign bilateral agreements that cancel, reduce, or otherwise modify the debt.

S. 1758 would also authorize the President to sell development assistance or food-aid debt to eligible investors for debt-for-nature swaps. The sale of a loan asset is a loan modification as defined by the Federal Credit Reform Act. Any cost to the federal government from these sales would also be met from the amounts authorized for appropriation.

Direct Spending. The bill would give the President the authority to sell debt back to an eligible country and to set terms and conditions, including price, notwithstanding any other provision of law. However, an advance appropriation would not be required to exercise this authority. Any such sale would increase budget authority and outlays to the extent that the sale prices were less than the estimated value of the loans.

The President has similar authority to engage in debt buybacks for debt-for-equity, debt-for-development, and debt-for-nature swaps, but only if appropriations are provided in advance for the cost of any modification. That authority has not been used much because of limited appropriations and little demand for unsubsidized sales. CBO estimates that the authority under the bill would not be used to a great extent unless loans were offered for sale below cost; in that case, the costs would depend on how the President would use the discretion permitted under the bill. CBO estimates that the bill would not have a cost in 1999 because of the time it would take to negotiate agreements but that costs would total about \$25 million in 2000 and about \$150 million over the 2000-2006 period. This estimate assumes debt buybacks on only a very small proportion of eligible development and food-aid debt, which has a face value of almost \$13 billion.

PAY-AS-YOU-GO CONSIDERATIONS:

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars											
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
Changes in outlays		0	0	25	50	35	20	10	5	5	0	0
Changes in receipts												Not applicable

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains no intergovernmental or private-sector mandates as defined in UMRA, and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On March 13, 1998, CBO prepared an estimate for the companion bill in the House of Representatives, H.R. 2870. All spending in that bill would be subject to appropriation, and the amounts authorized are the same as in S. 1758.

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