CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas Holtz-Eakin,
Director

October 4, 2005

Honorable Judd Gregg
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

As you requested, CBO has reviewed S. 1766, the Louisiana Katrina Reconstruction Act, as introduced on September 22, 2005. CBO has not completed an analysis of the bill, but on a preliminary basis, we estimate that S. 1766 would provide new budget authority totaling more than $212 billion for fiscal years 2005 and 2006. (Because 2005 is now over, the appropriations for 2005 would not be effective unless they were changed to 2006 appropriations.) A summary of that spending authority is provided below. Outlays from that funding would occur over several years, mostly within the 2006-2010 period.

Some provisions of the bill would provide indefinite amounts of budget authority for 2006 and later years. For example, section 613, which provides for payments to states from receipts generated by oil and gas leases on the Outer Continental Shelf (OCS), would cost between $3.0 billion and $3.6 billion a year over the 2006-2015 period. CBO has not completed an estimate of all of those provisions; some of the unestimated provisions would probably cost more than $1 billion. This estimate only includes amounts that would be appropriated by S. 1766; it does not include amounts authorized to be appropriated in subsequent legislation.

In addition, the Joint Committee on Taxation (JCT) and CBO estimate, on a preliminary basis, that enacting the bill would reduce federal revenues by nearly $7 billion in fiscal year 2006, by about $29 billion over the 2006-2010 period, and by about $34 billion over the 2006-2015 period.

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act legislative provisions that provide for emergency assistance or relief. CBO has determined that many provisions of this bill would fall within that exclusion and has not reviewed them for intergovernmental or private-sector mandates. All other provisions contain no mandates with costs that would exceed the thresholds established by that act ($62 million for intergovernmental mandates and $120 million for private-sector mandates in 2005, adjusted annually for inflation).

Preliminary Estimate of Budget Authority Provided by S. 1766

The following table summarizes CBO's preliminary estimate of the budget authority for 2005 and 2006 that would be provided by enacting S. 1766.

Preliminary CBO Estimate of Budget Authority Provided by S. 1766 for 2005 and 2006 (In Billions of Dollars)

Title I - Emergency Supplemental Appropriations	105.1
Title II - Improvements to Disaster Assistance	3.3
Title III - Individual Citizens Relief and Recovery	14.0
Title IV - Public Relief, Small Business, and Agriculture Recovery	3.8
Title V - Rebuilding of Infrastructure	58.6
Title VI - Hurricane Protection and Environmental Restoration	26.8
Title VIII - Law Enforcement Improvements	0.1
Total Funding	211.7

NOTES: This table summarizes all of the specified appropriations —about $180 billion—in S. 1766 and the bulk of the bill's additional (indefinite) funding. CBO has not completed an estimate for all of the bill's provisions, however.

S. 1766 specifies that many of its appropriations are for fiscal year 2005. Although fiscal year 2005 is now over, CBO has included those amounts in the total in this table since those provisions could be changed to provide the funding for fiscal year 2006.

The largest individual appropriated items include:

- $60 billion for Community Development Block Grants, HOPE IV (public housing grants), HOME (affordable housing grants), and a new Louisiana Redevelopment Fund;

- $40 billion to establish the Pelican Commission to protect the Louisiana coastal area from future flooding and to restore wetlands;

- $14 billion for the Louisiana Department of Transportation to construct, repair, and expand roads, transit, and ports in Louisiana; and

- $10 billion in grants to financial institutions with mortgagees who cannot make mortgage payments due to the disaster.

S. 1766 would appropriate such sums as may be necessary to carry out certain provisions. In those cases, CBO developed estimates of the costs where possible. Significant costs for such provisions include:

- $14 billion in grants to Louisiana for mitigation measures aimed at flood prevention;

- $5 billion in infrastructure and economic assistance to affected utilities;

- $4.5 billion in increased federal matching payments and assistance to states for the Medicaid program; and

- $3.5 billion in 2006 for payments to certain coastal states to share half of the receipts generated from oil and gas leases on the Outer Continental Shelf. S. 1766 would provide permanent authority for those payments to continue beyond 2006. The annual cost of this provision would range between $3.0 billion and $3.6 billion over the 2007-2015 period.

Pursuant to section 407 of H. Con. Res. 95 (the Concurrent Resolution on the Budget, Fiscal Year 2006), CBO estimates that enacting the OCS provision would cause an increase in direct spending greater than $5 billion in the 10-year period between 2016 and 2025, and would likely cause similar increases greater than $5 billion in at least one other 10-year period through 2055.

Preliminary Estimate of the Impact on Revenues

S. 1766 would reduce revenues by about $34 billion over the 2006-2015 period, JCT and CBO estimate. JCT provided revenue estimates for most of the provisions, which account for nearly all of the revenue effects. The provision with the largest estimated effect would provide a partial income tax holiday by exempting from taxable income half of wage and self-employment income related to activity in the disaster zone, up to a limit of $35,000 per year for single taxpayers and $70,000 for married taxpayers filing jointly. JCT estimates that the provision, which would apply through 2008, would reduce revenues by about $10.3 billion over the 2006-2008 period.

JCT also estimates that S. 1766 would reduce receipts by $4.8 billion over the 2006-2015 period by providing a one-time tax credit of up to $50,000 to certain individuals displaced by Hurricane Katrina who purchase a home in the same state, subject to income limits. In addition, S. 1766 would increase tax-exempt financing by creating "Hurricane Katrina Disaster Bonds," which JCT estimates would reduce revenues by $4.7 billion over the 2006-2015 period.

Estimates of revenue effects are provided in the following table.

Estimated Revenue Effects of the Tax Provisions Contained in S. 1766

	By Fiscal Year, in Billions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Title VII										
50 Percent Income Tax Holiday	-2.9	-4.8	-2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Homebuyer Tax Credit	-0.6	-2.5	-1.6	-0.1	-0.1	*	*	*	*	*
Qualified Disaster bonds	*	-0.1	-0.2	-0.4	-0.5	-0.6	-0.7	-0.7	-0.7	-0.7
Other Title VII provisions	-3.2	-3.7	-2.8	-1.7	-1.4	-1.3	-1.0	*	0.4	0.3
Subtotal	-6.7	-11.1	-7.2	-2.2	-2.0	-1.9	-1.6	-0.7	-0.2	-0.3
Other Titles	-0.1	-0.1	*	*	*	*	*	*	*	-0.1
Total Revenue Changes	-6.8	-11.2	-7.3	-2.2	-2.0	-1.9	-1.7	-0.7	-0.3	-0.4

Note: * = Between -$50 million and $50 million.

Sources: JCT and CBO.

Items Not Included in the Preliminary Cost Estimate

CBO does not have sufficient information to complete estimates of some provisions in the bill, including one that would require the Secretary of the Interior to convey a portion of the Outer Continental Shelf to Louisiana and one that would direct the President to pay the wages of certain local government employees who participate in the recovery effort.

JCT also does not have sufficient information to complete estimates of a few provisions of the bill. Therefore, the revenue estimates are not yet completed and are preliminary.

I hope this information is helpful to you. If you have additional questions about S. 1766, we would be pleased to answer them. The CBO staff contacts for spending provisions are Gregory Waring and Mike Waters. The CBO contact for the estimated revenue impact is Mark Booth.

Sincerely,

Douglas Holtz-Eakin
Director

cc: Honorable Kent Conrad
Ranking Member

Honorable David Vitter

Honorable Mary L. Landrieu