CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 3, 2005

S. 1858
Community Disaster Loan Act of 2005

As cleared by the Congress and signed by the President on October 7, 2005

SUMMARY

S. 1858 (enacted as Public Law 109-88) authorizes the Federal Emergency Management Agency (FEMA) to make loans to local governments using up to $750 million of the funds provided by the second emergency supplemental appropriation act to meet immediate needs arising from the consequences of Hurricane Katrina (Public Law 109-62). This act also authorizes FEMA to spend $1 million of such funds to administer the loans.

CBO expects that about half of the spending on the loans will replace spending on other activities from funds provided in the supplemental appropriation act; however, CBO does not expect that FEMA will spend all of the funds appropriated for hurricane relief between 2006 and 2010. Because the legislation provides a new use for those funds, CBO expects that more of the appropriated resources will be spent during that period. Therefore, CBO estimates that S. 1858 will increase direct spending by $375 million over the 2006-2010 period but have no net impact over the 2006-2015 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1858 is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development).

	By Fiscal Year, in Millions of Dollars										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN DIRECT SPENDING											
Budget Authority	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	376	375	0	-376	0	0	-125	-125	-125	0

BASIS OF ESTIMATE

Under current law, FEMA is authorized to provide loans to local governments that have lost a substantial amount of revenue because of a major disaster and that require financial assistance in order to continue operations. S. 1858 authorizes FEMA to transfer to this program $750 million of the funds provided by the second emergency supplemental appropriation act to meet immediate needs arising from the consequences of Hurricane Katrina (Public Law 109-62). The legislation also transfers $1 million of such funds to administer the new loans.

The loans provided under S. 1858 will help local governments pay employees and continue their essential services. CBO expects that FEMA will disburse all of those loans in 2006 and 2007. Under the Federal Credit Reform Act, the costs of direct loans are recorded in the budget on a net-present-value basis in the fiscal year in which the loans are disbursed. CBO estimates that FEMA will spend $376 million in 2006 and $375 million in 2007 on the loans authorized by S. 1858.

Over the next five years, CBO expects that about half of the spending on the loans will replace spending on other activities from the supplemental appropriation act; therefore, CBO estimates that spending on those other activities will decrease by $376 million in fiscal year 2009. CBO expects that FEMA will not spend all of the funds appropriated for hurricane relief during the 2006-2010 period, however. Because the legislation provides a new use for those funds, CBO expects that more of the appropriated resources will be spent over that period. For that reason, CBO estimates that enacting S. 1858 will increase direct spending by $375 million over the 2006-2010 period. (That increase will be offset by lower spending over the 2011-2015 period.)

Under credit reform procedures, appropriated funds must cover only the subsidy cost of a direct loan. Historically, however, FEMA's loans to local governments have been costly because the agency lends money to governments only when they experience financial distress. Furthermore, FEMA had the authority to forgive a loan if the local government's revenues were not sufficient to meet its operating expenses in the three years following a major disaster. FEMA has estimated that, in the past, the subsidy cost of such loans was over 90 percent of the total loan principal. S. 1858 repeals FEMA's authority to forgive loans, but CBO expects that the subsidy costs still will likely represent a large part of the total loan principal. S. 1858 specifies that FEMA can lend no more than $1 billion to local governments with the $750 million transferred to the program for the subsidy costs of the loans.

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