CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 28, 2002

S. 1991
National Defense Rail Act

As ordered reported by the Senate Committee on Commerce, Science, and Transportation on April 18, 2002

SUMMARY

S. 1991 would authorize the Secretary of Transportation to provide grants to Amtrak for security improvements, debt payments, infrastructure development, and other activities. The bill also would authorize the Secretary to provide grants, loans, and loan guarantees to states and other public agencies for the development of high-speed rail. For all of these activities, S. 1991 would authorize the appropriation of about $23 billion over the 2003-2007 period, and an additional $215 million for each year after 2007. Assuming appropriations of the authorized amounts, CBO estimates that implementing S. 1991 would cost about $17 billion over the 2003-2007 period, and additional $7 billion over the 2008-2012 period.

In addition to the grants, the bill would expand the Railroad Rehabilitation and Improvement Financing program (RRIF). This program authorizes the Federal Railroad Administration (FRA) to provide direct loans and loan guarantees for the development of railroad infrastructure. S. 1991 would raise the ceiling on the total amount of outstanding loans or guarantees authorized under the RRIF program from $3.5 billion to $35 billion. The RRIF is a direct spending program; therefore, pay-as-you-go procedures would apply. However, CBO does not expect additional direct spending under the bill would be significant until after 2012.

S. 1991 contains intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) but CBO estimates that costs to states would not exceed the threshold established in UMRA ($58 million in 2002, adjusted annually for inflation). The bill contains no new private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1991 is shown in the following table. The costs of this legislation fall within budget function 400 (transportation).

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
SPENDING SUBJECT TO APPROPRIATION[a]						
Spending Under Current Law for Amtrak and High-Speed Rail						
Budget Authority[b]	658	0	0	0	0	0
Estimated Outlays	969	33	24	18	9	0
Proposed Changes for Amtrak						
Estimated Authorization Level	0	3,930	2,598	2,700	2,798	2,965
Estimated Outlays	0	1,251	1,866	2,629	2,783	2,905
Proposed Changes for High-Speed Rail						
Estimated Authorization Level	0	1,550	1,550	1,550	1,550	1,550
Estimated Outlays	0	233	775	1,318	1,550	1,550
Spending Under S. 1991 for Amtrak and High-Speed Rail						
Estimated Authorization Level [a]	658	5,480	4,148	4,250	4,348	4,515
Estimated Outlays	969	1,517	2,665	3,965	4,342	4,455

a. CBO estimates that S. 1991 would increase direct spending after 2012.
b. For 2002, $626 million was appropriated for Amtrak, and $32 million was provided for high-speed rail.

BASIS OF ESTIMATE

Implementing S. 1991 would authorize the appropriation of over $23 billion for grants to Amtrak, and for high-speed rail projects. Enacting the bill also would increase direct spending by increasing the authorized level of loans and loan guarantees under the RRIF program from $3.5 billion to $35 billion.

Grants

For this estimate, CBO assumes that S. 1991 will be enacted in 2002, and that the authorized amounts will be appropriated in each year. Outlay estimates are based on information from FRA and Amtrak, and historical spending patterns of rail programs.

Amtrak. S. 1991 would authorize the appropriation of almost $15 billion over the 2003-2007 period for Amtrak, and an additional $215 million for each year after 2007. CBO estimates that implementing the provisions for Amtrak would cost about $11.4 billion over the 2003-2007 period, and another $4.2 billion over the 2008-2010 period. Implementing the Amtrak provisions would cost an additional $215 million each year after 2010.

Currently, FRA makes appropriated funds immediately available to Amtrak for short-term needs. For long-term projects that span more than two or three years, FRA transfers appropriated funds to Amtrak on a reimbursable basis. CBO expects that FRA would continue this policy under S. 1991. For this estimate, for example, CBO expects that FRA would make appropriated funds for debt payments immediately available to Amtrak, but we expect that the agency would make appropriated funds for rehabilitating tunnels in New York, Washington, and Baltimore available on a reimbursable basis over the multiyear construction period.

High-Speed Rail. S. 1991 would authorize the appropriation of about $7.8 billion over the 2003-2007 period for the development of high-speed rail. CBO estimates that implementing the provisions for high-speed rail would cost about $5.4 billion over the 2003-2007 period, and an additional $2.5 billion after 2007.

Under S. 1991, a portion of the funds for high-speed rail would be dedicated to improving the safety of crossings between highways and railways. For these projects, S. 1991 would require railroads to pay a share of the projects' costs that reflect the benefits they receive. Railroads would be able to pay their share either to the federal government or to the state where the project is located. CBO expects that the railroads would pay their share to the state governments, as they have done for similar programs in the past.

RRIF

CBO estimates that the RRIF program will operate at a net cost to the government over the next several years. However, we do not expect that demands for loans and loan guarantees will exceed the program's existing authority (of total loans or guarantees up to $3.5 billion) until after 2012. Consequently, enacting S. 1991 would not increase the cost of the program over the next 10 years unless the higher loan level under the bill ($35 billion) encourages railroads to seek much bigger loans or loan guarantees from the federal government.

Program Cost. The Federal Credit Reform Act requires an upfront appropriation for the subsidy costs of loan and loan guarantee programs. The subsidy cost equals the estimated long-term cost to the government of loans or loan guarantees, calculated on a net present value basis, excluding administrative costs.

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 guarantee without an appropriation. That is, the program has direct spending authority—unlike most federal credit programs, which are subject to appropriation action. After borrowers have repaid their loans, the government must 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 did not fully cover the subsidy cost of the loans and guarantees.

This asymmetry in the program's structure is the reason why CBO expects RRIF to have a net cost to the government over many years. The actual subsidy cost of each loan or guarantee made under the RRIF program is likely to be higher or lower than the premium collected from the borrower when all of the loans are repaid—some premiums may be lower than the actual subsidy cost, but none will be higher.

Program Demand. The RRIF program was authorized in 1998 by the Transportation Equity Act for the 21st Century. Under current law, FRA can disburse up to $3.5 billion in loans and loan guarantees for railroad infrastructure development, and for refinancing existing railroad debt. Since 1998, no loans have been disbursed or guaranteed under the program.

S. 1991 would increase the amount of loans and loan guarantees authorized under RRIF, causing an increase in direct spending after the current authority to issue loans and guarantees has been used. CBO estimates that direct spending would increase by a few hundred million dollars over several years beginning after 2012. 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 2012. CBO expects that over the next 10 years, class II and III railroads are likely to apply for relatively small loans for infrastructure projects, and class I railroads are unlikely to apply for larger loans because many of them can find favorable loan terms on the private market.

If FRA were to accept applications from class I railroads to refinance a large part of their existing debt, then FRA could disburse most of the loan principal authorized under S. 1991 much sooner because class I railroads currently hold over $30 billion in long-term debt.

Based on information from FRA and some of these railroads, CBO does not expect many class I railroads to seek refinancing from the government or expect FRA to accept many applications for refinancing.

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. CBO estimates that enacting S. 1991 would increase direct spending, but we do not expect that the increases would be significant until after 2012.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 1991 would create a new program to provide assistance to certain states to develop a high-speed rail transportation system. As part of this program, states would be required to maintain a survey of railway-highway crossings on high-speed rail corridors, and to develop a plan to fix crossings in the high-speed rail corridors that require separation, relocation, or protective devices. These requirements to maintain the survey and the improvement plan would be mandates as defined in UMRA because they are not conditions of participating in the assistance program. CBO estimates that costs to comply with these mandates would be small, and would not exceed the threshold established in UMRA ($58 million in 2002, adjusted annually for inflation).

ESTIMATED IMPACT ON THE PRIVATE SECTOR

This bill contains no new private-sector mandates as defined in UMRA.

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