CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 5, 2003

H.R. 2115
Flight 100—Century of Aviation Reauthorization Act

As ordered reported by the House Committee on Transportation and Infrastructure on May 21, 2003, and including amendments specified in a letter to CBO on June 4, 2003

SUMMARY

H.R. 2115 would authorize appropriations for programs administered by the Federal Aviation Administration (FAA). Most of the bill's authorizations would extend for four years: the 2004-2007 period. CBO estimates that implementing H.R. 2115 would cost about $48.4 billion over the next five years, assuming appropriation actions consistent with the amounts that would be authorized by the bill and the levels of new contract authority (a mandatory form of budget authority) it would provide for aviation programs. In addition, we also estimate that enacting the bill would increase direct spending by $1.4 billion over the 2004-2008 period and by $2.7 billion over the next 10 years. Finally, CBO and the Joint Committee on Taxation (JCT) estimate that H.R. 2115 would increase revenues by $3 million over the 2004-2008 period and $11 million over the next 10 years.

H.R. 2115 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA) because it would require state and local governments to notify the FAA if they intend to close an airport. CBO estimates that the cost of this mandate would be minimal and would be significantly below the threshold established in that act ($59 million in 2003, adjusted annually for inflation). The bill would authorize grants for various activities that would benefit state and local governments.

H.R. 2115 would impose private-sector mandates as defined in UMRA on air carriers. CBO estimates that the direct costs of those mandates would fall below the annual threshold established in UMRA ($117 million in 2003, adjusted annually for inflation) in the first five years the mandates are in effect.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2115 is shown in Table 1. The costs of this legislation fall within budget function 400 (transportation) and 600 (income security).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 2115

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Budget Authority[a]	10,160	15	15	15	15	15
Estimated Outlays[b]	13,364	5,764	3,886	3,616	3,500	3,472
Proposed Changes:						
FAA Operations						
Estimated Authorization Level	0	7,591	7,732	7,889	8,064	0
Estimated Outlays	0	6,756	7,716	7,872	8,045	887
Air Navigation Facilities and Equipment						
Estimated Authorization Level	0	3,138	2,993	3,053	3,110	0
Estimated Outlays	0	1,349	2,542	2,824	3,015	1,730
Reimbursing Airports and Air Carriers						
Estimated Authorization Level	0	1,300	800	800	800	800
Estimated Outlays	0	780	870	850	800	800
Airport Improvement Program (AIP)[c]						
Estimated Authorization Level	0	0	0	0	0	0
Estimated Outlays	0	-56	13	154	327	480
Other						
Estimated Authorization Level	0	210	110	111	114	113
Estimated Outlays	0	148	139	122	114	113
Total Proposed Changes						
Estimated Authorization Level	0	12,239	11,635	11,853	12,088	913
Estimated Outlays	0	8,978	11,281	11,822	12,300	4,010
Spending Under H.R. 2115						
Estimated Authorization Level[a]	10,160	12,254	11,650	11,868	12,103	928
Estimated Outlays	13,364	14,742	15,167	15,437	15,799	7,483

Continued

TABLE 1. Continued

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
DIRECT SPENDING						
Baseline Spending Under Current Law						
Estimated Budget Authority[c]	3,333	3,518	3,762	3,637	3,564	3,527
Estimated Outlays	-39	140	384	258	186	149
Proposed Changes:						
Terrorism Risk Insurance						
Estimated Budget Authority	0	-3	-38	172	472	738
Estimated Outlays	0	-3	-38	172	472	738
AIP Authorization[c]						
Estimated Budget Authority	0	22	222	422	622	622
Estimated Outlays	0	0	0	0	0	0
Retirement Benefits for Certain FAA Employees						
Estimated Budget Authority	0	1	1	1	2	2
Estimated Outlays	0	1	1	1	2	2
Funding for Midway Island Airport						
Estimated Budget Authority	0	1	3	1	1	0
Estimated Outlays	0	0	1	2	1	1
Spending Under H.R. 2115						
Estimated Budget Authority[c]	3,333	3,539	3,950	4,233	4,661	4,889
Estimated Outlays	-39	139	349	433	661	890
CHANGES IN REVENUES						
Estimated Revenues	0	1	1	1	1	1

Note: Details may not add to totals because of rounding.

a. The 2003 level is the amount appropriated for that year for FAA's operations account; facilities and equipment account; research, engineering, and development account; and essential air service.

b. Estimated outlays under current law are from amounts appropriated for 2003 and previous years for the FAA operations account and the facilities and equipment account, as well as the discretionary outlays from the obligation limitations for the Airport Improvement Program, as assumed to continue in the budget resolution baseline (adopted in April 2003).

c. Budget authority for AIP is provided as contract authority, a mandatory form of budget authority; however, outlays from AIP contract authority are subject to obligation limitations contained in appropriation acts and are therefore discretionary.

BASIS OF ESTIMATE

Implementing H.R. 2115 would increase spending subject to appropriation. Enacting the bill also would increase direct spending and revenues. Outlay estimates are based on historical spending patterns for the affected programs and on information provided by the Department of Transportation (DOT) and FAA staff.

Spending Subject to Appropriation

For purposes of this estimate, CBO assumes that H.R. 2115 will be enacted before the start of fiscal year 2004 and that the amounts authorized for aviation programs will be appropriated for each fiscal year.

FAA Operations. The bill would authorize the appropriation of $7.6 billion for fiscal year 2004, $7.7 billion for 2005, $7.9 billion for 2006, and $8.0 billion for 2007 for FAA operations. (In comparison, for fiscal year 2003, the Congress provided roughly $7 billion for that purpose.) CBO estimates that appropriation of the amounts specified in the bill would cost $31.3 billion over the 2004-2008 period.

FAA Air Navigation Facilities and Equipment. H.R. 2115 would authorize the appropriation of about $3.1 billion for fiscal year 2004, $3.0 billion for 2005, $3.1 billion for 2006, and $3.1 billion for 2007 for facilities and equipment. (In comparison, for fiscal year 2003, the Congress provided about $2.9 billion for that program.) CBO estimates that appropriation of those amounts would cost $11.5 billion over the next five years.

Reimbursement of Airports and Air Carriers. H.R. 2115 would authorize the Secretary of Transportation to reimburse airports and air carriers for the costs of certain security activities. Such activities include the security screening of catering supplies, checking documents, screening persons with access to aircraft, and providing space in airports for security personnel that was previously used for revenue-producing purposes. Based on information from the American Association of Airport Executives and the Air Transport Association about the costs that airports and air carriers have incurred for these activities, CBO estimates reimbursing such costs could total $4.1 billion over the 2004-2008 period.

FAA Airport Improvement Program. Title I would provide $14.8 billion in contract authority (a mandatory form of budget authority) over the 2004-2007 period for the airport improvement program (AIP). Consistent with section 257 of the Balanced Budget and Energy Deficit Control Act, which specifies that certain expiring programs be assumed to continue for budget projection purposes, we estimate that the projected total amount of contract authority for AIP would be $18.8 billion over the 2004-2008 period. That total is $1.9 billion above the amounts projected in the current budget resolution baseline. (See the discussion of AIP under "Direct Spending," below, for more details on the budgetary treatment of this program.)

Assuming that the obligation limitations of AIP spending, as set forth in annual appropriation acts, are equal to the projected contract authority amounts for each year, CBO estimates that implementing this provision would cost $917 million over the 2004-2008 period. In addition, H.R. 2115 would change the composition of AIP spending, thereby reducing outlays below the baseline level in 2004.

Other Provisions. CBO estimates that implementing other programs that would be authorized by H.R. 2115 would cost a total of $636 million over the 2004-2008 period. Components of that estimate are described below.

Essential Air Service Program. Section 415 would authorize the appropriation of $50 million a year for the Essential Air Service program above the $15 million authorized under current law. In addition, section 415 would authorize the Secretary of Transportation to hire four additional employees to carry out the Essential Air Service Program. Based on historical spending patterns of this program, CBO estimates that implementing section 415 would cost $242 million over the 2004-2008 period.

Small Community Air Service Development Program. Section 104 would authorize the appropriation of $35 million a year over the 2004-2008 period for the small community air service development program. Based on historical spending patterns, CBO estimates this provision would cost $168 million over the 2004-2008 period.

Reimbursing General Aviation Entities. Section 432 would authorize the appropriation of $100 million to reimburse general aviation entities for the security costs incurred and revenue forgone as a result of the restrictions imposed following the terrorist attacks of September 11, 2001. CBO estimates this provision would cost $100 million over the 2004-2008 period.

Retirement Benefits for Certain FAA Employees. Section 439 would provide an increase in retirement benefits to some federal employees working as air traffic controller supervisors. Agency retirement contributions for employees participating in the Federal Employees' Retirement System (FERS)—which includes most employees first hired after 1983—are tied to the cost of providing benefits under that system. Therefore, if the costs of providing benefits under FERS increase, agency contributions also increase. The FAA and Department of Defense currently employ about 600 air traffic controller supervisors who are covered by FERS. CBO estimates that section 439 would increase agency contributions for these employees by $88 million over the 2004-2008 period. (This provision would also affect direct spending and revenues as described in the following sections.)

Miscellaneous Provisions. Section 101 would authorize the appropriation of about $4 million a year over the 2004-2007 period for the Bureau of Transportation Statistics to gather and analyze airline information. In addition, section 204 would authorize the appropriation of $4.2 million a year to facilitate the timely review of environmental impacts of projects that would enhance airport capacity. CBO estimates that implementing those two provisions would cost $33 million over the 2004-2008 period, assuming appropriation of the necessary amounts.

Finally, the bill would authorize other activities that we estimate would cost $5 million over the 2004-2008 period, including task forces and studies on the future of air transportation, staffing standards for FAA inspectors, the feasibility of hosting a world-class international air show, and methods for transferring military technologies to civilian aircraft.

Direct Spending

H.R. 2115 would extend and expand the FAA's terrorism insurance program for commercial airlines, provide additional contract authority for the Airport Improvement Program, provide funding for Midway Island Airport, and increase spending for retirement benefits for certain FAA employees. CBO estimates that enacting those provisions would increase direct spending by $1.4 billion over the 2004-2008 period and $2.7 billion over the 2004-2013 period. The 10-year cost of those provisions is summarized in Table 2.

Terrorism Risk Insurance. Under current law, the FAA offers insurance to air carriers against liability arising from losses caused by terrorist events. The FAA's aviation terrorism insurance program is scheduled to end on December 31, 2004. H.R. 2115 would extend the authorization for that program through December 31, 2007. The bill also would authorize the FAA to expand the program by offering insurance coverage to companies that manufacture aircraft and aircraft engines. CBO estimates that the net cost of providing insurance to air carriers and manufacturers through December 31, 2007, would be about $1.3 billion over the 2004-2008 period and about $2.7 billion over the 2004-2013 period.

TABLE 2. SUMMARY OF EFFECTS ON DIRECT SPENDING AND REVENUES UNDER H.R. 2115

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	21	188	596	1,097	1,362	1,154	975	866	757	708
Estimated Outlays	-1	-35	175	475	741	532	353	244	135	86
CHANGES IN REVENUES										
Estimated Revenues	1	1	1	1	1	2	2	2	2	2

Currently, the FAA collects premiums from air carriers in exchange for certain insurance coverage. Under the bill, the government also would collect premiums from aircraft and aircraft engine manufacturers. Such premiums are recorded as an offset to direct spending in the year that they are collected. CBO estimates that under H.R. 2115, the FAA would collect about $500 million in additional premiums over the 2004-2008 period. CBO expects that the cost of providing insurance, however, would be much greater than premiums collected. CBO estimates that payments for expected net losses under the FAA insurance program would cost about $3.2 billion over the 2004-2013 period.

CBO cannot predict how much insured damage terrorists might cause in any specific year. Instead, our estimate of the cost of the insurance coverage under H.R. 2115 represents an expected value of payments from the program—a weighted average that reflects the probabilities of various outcomes, from zero damages up to very large damages due to possible future terrorist attacks. The expected value can be thought of as the amount of an insurance premium that would be necessary to just offset the risk of providing this insurance; indeed, our estimate of the expected cost for H.R. 2115 is based on private-sector premiums for terrorism insurance that have been adjusted for differences in costs faced by private insurance firms that are not borne by the federal government. While this cost estimate reflects CBO's best judgment on the basis of available information, costs are a function of inherently unpredictable future terrorist attacks. As such, actual costs could fall anywhere within an extremely broad range.

Airport Improvement Program. H.R. 2115 would provide $14.8 billion in contract authority over the 2004-2006 period for the airport improvement program. Consistent with the Balanced Budget and Emergency Deficit Control Act, we estimate that the projected total amount of contract authority would be $18.8 billion over the 2004-2008 period and $38.8 billion over the 2004-2013 period. Those totals are about $1.9 billion and $5 billion, respectively, above the amounts projected in the CBO baseline. The bill also would extend the authority of the Secretary of Transportation to incur obligations to make grants under the AIP program.

Under current law, AIP has about $3.4 billion of contract authority available in 2003. Relative to the baseline, enacting title I would increase contract authority by $22 million in fiscal year 2004 and by a total of $1.3 billion over the 2004-2007 period. As noted above, although H.R. 2115 specifies contract authority only through 2007, section 257 of the Balanced Budget and Emergency Deficit Control Act requires CBO to assume that contract authority for AIP would continue (for baseline purposes) through the entire 2004-2013 period. Under that requirement, the estimated level of contract authority would remain at $4 billion a year over the 2008-2013 period. That amount would exceed the amount assumed in the current baseline for those years by $622 million a year. Hence, CBO estimates H.R. 2115 would increase contract authority—above baseline levels—by $3.7 billion over the 2008-2013 period.

Expenditures from AIP contract authority are governed by obligation limitations contained in annual appropriation acts and are categorized as discretionary spending. For this estimate, we assume that appropriation acts will set obligation limitations for AIP equal to the annual levels of contract authority.

Current law provides for increases to AIP contract authority in any year that the amounts authorized to be appropriated for FAA's facilities and equipment account are greater than the amounts actually provided in appropriation acts for that program. By authorizing amounts for facilities and equipment over the 2004-2006 period, H.R. 2115 would authorize adjustments to AIP contract authority for those years as well. Any adjustment would constitute new direct spending authority, and all spending for AIP—including spending triggered by such adjustments—would still be subject to obligation limitations established in appropriation acts. Although H.R. 2115 could result in additional AIP contract authority of as much as $12.1 billion over the 2004-2007 period if no appropriations were provided for facilities and equipment, CBO assumes that appropriations will equal or exceed authorized amounts; thus, we assume no increases to contract authority would be made under this provision.

Retirement Benefits for Certain FAA Employees. Section 439 would provide some supervisors of air traffic controllers more generous retirement benefits than they receive under current law. It would also make some covered workers eligible to collect retirement benefits earlier than they otherwise would be. There are about 2,500 air traffic controller supervisors currently employed by the Federal Aviation Administration and the Department of Defense, and about 150 retire each year. CBO estimates this section would increase costs in two ways: it would increase spending because some workers would retire earlier than they otherwise would have, and it would increase annuities for some employees, regardless of when they retire. CBO estimates that the cost of retirement benefits would increase by $1 million in 2004 and by $27 million over the next 10 years. Spending on retiree health benefits would also increase, but by less than $500,000 annually.

Funding for Midway Island Airport. Section 524 would provide $750,000 in 2004, $2.5 million in 2005, and $1 million in each of 2006 and 2007 for capital projects at the Midway Island Airport. Based on historical spending patterns for such projects, CBO estimates this provision would cost about $5 million over the 2004-2008 period.

Revenues

H.R. 2115 would increase amounts collected from certain federal employees as contributions toward retirement benefits. Those collections are recorded in the budget as revenues. The bill also would result in forgone revenues as a result of an expected increase in the use of tax-exempt financing for airport projects. CBO and JCT estimate that the net impact of those provisions would be to increase revenues by $3 million over the 2004-2008 period and $11 million over the next 10 years.

Increased Employee Contributions for Retirement Benefits. Section 439 would provide an increase in retirement benefits for some air traffic controller supervisors. Under the bill, employees participating in FERS would be required to contribute a greater portion of their salary toward the increased benefits. CBO estimates that raising the contribution rate on those employees would increase federal revenues by $1 million in 2004 and $5 million over the 2004-2008 period. In order to qualify for the increased benefits for service already performed as a supervisor, currently employed supervisors participating in FERS would be required to deposit a special payment to the retirement fund by the time they retire. This payment would be designed to make up the difference between what they did contribute into the retirement system prior to the bill's enactment and what they would have contributed if that service had been covered all along. CBO estimates that implementing this provision would increase revenues by less than $500,000 annually.

Forgone Revenues from Increased Use of Tax-Exempt Financing. By simplifying application procedures, H.R. 2115 could encourage more smaller airports to seek authority from the Secretary of Transportation to charge passenger facility fees. JCT expects that those provisions would result in an increase in tax-exempt financing for airport construction and a subsequent loss of federal revenue. JCT estimates that the revenue losses, which would not exceed $500,000 in any year, would total $2 million over the 2004-2008 period and $4 million over the 2004-2013 period (see Table 2).

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 2115 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act because it would require state and local governments to notify the FAA if they intend to close an airport. CBO estimates that the cost of this mandate would be minimal and would be significantly below the threshold established in that act ($59 million in 2003, adjusted annually for inflation).

Enacting this bill would benefit state and local governments because it would authorize grants to airports for planning, development, mitigation, and other initiatives. In addition, they would benefit from provisions that would authorize nonhub airports to use passenger facility fees to fund FAA-approved projects and prohibit the FAA from requiring airports to provide space and related services at no cost. Any costs incurred by state and local governments as a result of grant requirements in this bill would be voluntary.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 2115 would impose private-sector mandates as defined in UMRA on air carriers. CBO estimates that the direct costs of those mandates would fall below the annual threshold established in UMRA ($117 million in 2003, adjusted annually for inflation) in the first five years the mandates are in effect.

H.R. 2115 would impose mandates by increasing the cost of two existing mandates. First, section 401 would require that air carriers provide certain flight information on interstate transportation to the Department of Transportation. The mandate would be effective on the date the final rule is issued to modernize the Origin and Destination Survey of Airline Passenger Traffic. In general, this rule would reduce the reporting burden for air carriers by allowing them to file information electronically with DOT. According to industry representatives, air carriers currently collect the flight information data. CBO estimates that the cost to comply with the mandate would be minimal.

Second, section 411 would require that certain domestic and foreign air carriers update their current plans that address the needs of the families of passengers involved in an aircraft accident resulting in a major loss. The updated plan must include an assurance that in the case of an accident in which the National Transportation Safety Board (NTSB) conducts a public hearing at a location greater than 80 miles from the accident site, the air carrier will ensure that the proceeding is made available simultaneously by electronic means at a location open to the public at both the origin city and destination city of the air carrier's flight.

Since 1997, the NTSB has held no more than three hearings per year for accidents involving passenger air service. Most of those were held in Washington, D.C., away from the accident site. Typically, such hearings lasted two or three days. According to industry representatives, in order to comply with this mandate, air carriers would be required to obtain sites in two cities, provide screens at those sites, and supply the audio and visual feed of the NTSB hearing. Based on this information, CBO expects that the cost of making the hearings available would be small.

Section 437 would extend the current requirement that air carriers honor other air carriers' tickets under certain circumstances as a result of an air carrier's bankruptcy or insolvency. Because the likelihood of an event resulting in large incremental losses to the airline industry for providing air transportation to passengers ticketed on a suspended route is relatively low, CBO estimates that the annual costs of complying with this mandate (in expected-value terms) would not be substantial.

The bill also contains three mandates that would impose new requirements on air carriers. First, section 413 would require air carriers that provide scheduled passenger air transportation to display a placard available to each passenger that informs the passengers of the country in which the aircraft was finally assembled. Based on information from government sources, CBO estimates that air carriers would have to provide placards for about a million seats. The cost to provide the required notice on such placards would be small.

Second, section 407 would require that air carriers that collect a passenger facility fee for airports to place the fees in an escrow account or to provide the airport with a letter of credit, bond, or other form of adequate and immediately available security in an amount equal to the estimated remittable passenger facility fees for 180 days. CBO is uncertain about the cost to comply with this mandate but it is likely that the cost would not be substantial.

Third, section 423 would require air carriers to verify that a flight attendant has a certificate that demonstrates proficiency issued by the FAA. CBO estimates that the administrative cost to comply with this mandate would be minimal.

PREVIOUS CBO ESTIMATE

On May 22, 2003, CBO transmitted a cost estimate for S. 824, the Aviation Investment and Revitalization Vision Act, as reported by the Senate Committee on Commerce, Science, and Transportation on May 2, 2003. Our estimate of spending subject to appropriation under H.R. 2115 is about $14 billion higher than under S. 824 because H.R. 2115 would authorize more funding over the next five years—$48.7 billion compared to $34.2 billion authorized under S. 824.

Our estimate of direct spending over the next 10 years under H.R. 2115 is about $1 billion more than under S. 824, primarily because H.R. 2115 would allow the FAA to sell terrorism insurance a longer period of time, and we estimate that extending that program would cost $1 billion more under H.R. 2115.

There are two reasons for differences in our estimates of revenues under H.R. 2115 and S. 824. First, H.R. 2115 would increase revenues received as employee contributions toward retirement benefits; S. 824 has no such provision. Second, while JCT estimates that both bills would reduce revenues because of greater use of tax-exempt financing for airport projects, JCT estimates those losses would be less under H.R. 2115 because provisions that would encourage such financing would be in effect for a shorter time than under S. 824.

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