CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 9, 2003

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

As cleared by the Congress on November 21, 2003

SUMMARY

H.R. 2115 would reauthorize programs administered by the Federal Aviation Administration (FAA) and makes changes to laws related to aviation. CBO estimates the act would reduce direct spending by $2 million in 2004 and increase it by $74 million over the next 10 years. In addition, CBO and the Joint Committee on Taxation (JCT) estimate that H.R. 2115 will increase revenues by $3 million over the 2004-2008 period and $11 million over the next 10 years. (The legislation also would affect spending subject to appropriation, but this estimate presents only the direct spending and revenue effects.)

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the impact of H.R. 2115 on direct spending and revenues is shown in the following table. The costs of this legislation fall within budget function 400 (transportation).

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING										
Airport Improvement Program [a]										
Estimated Budget Authority	21	122	222	322	322	322	322	322	322	322
Estimated Outlays	0	0	0	0	0	0	0	0	0	0
Aviation Security Program										
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	-207	-102	-47	185	93	47	22	9	0

Continued

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING (Continued)										
Terrorism Risk Insurance										
Estimated Budget Authority	-3	14	13	8	6	4	2	1	1	1
Estimated Outlays	-3	14	13	8	6	4	2	1	1	1
Retirement Benefits for Certain FAA Employees										
Estimated Budget Authority	1	1	1	2	2	2	3	4	5	6
Estimated Outlays	1	1	1	2	2	2	3	4	5	6
Total Changes										
Estimated Budget Authority	19	137	236	332	330	328	327	327	328	329
Estimated Outlays	-2	-192	-88	-37	193	99	52	27	15	7
CHANGES IN REVENUES										
Estimated Revenues	1	1	1	1	1	2	2	2	2	2

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

BASIS OF ESTIMATE

Enacting H.R. 2115 would affect both 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 and FAA.

Direct Spending

H.R. 2115 would provide additional contract authority for the Airport Improvement Program (AIP). The act would authorize the collection and spending of certain fees for grants to improve aviation security. It also would expand the FAA's terrorism insurance program and increase spending for retirement benefits for certain FAA employees. CBO estimates those provisions would reduce direct spending by $2 million in 2004 and increase it by $74 million over the next 10 years. Net savings in the near term reflect the expected lag between collection and spending of aviation security fees.

Airport Improvement Program. H.R. 2115 would provide almost $14.2 billion in contract authority over the 2004-2007 period for the airport improvement program. For fiscal year, 2004, the legislation specifies a total level of contract authority of $3.4 billion. Because an appropriations act (Public Law 108-107) already provided $1 million of the total level of contract authority for the AIP program in 2004, CBO estimates this legislation provides the remaining $3,399 million for the year.

Relative to the current budget resolution baseline, H.R. 2115 would increase contract authority by $21 million in fiscal year 2004 and by a total of $687 million over the 2004-2007 period. 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 $3.7 billion a year over the 2008-2013 period. That amount is the level specified in the act for 2007; it would exceed the amount assumed in the current baseline for 2008 through 2013 by $322 million a year. Hence, CBO estimates H.R. 2115 would increase contract authority—above baseline levels—by about $1.9 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 rather than direct spending. Hence, this estimate does not include the spending (i.e., outlays) that would result from contract authority provided by H.R. 2115.

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 2004-2007 period, H.R. 2115 authorizes increases to AIP contract authority for those years as well; however, such adjustments would still be subject to obligation limitations established in appropriation acts. If no appropriations were provided for facilities and equipment, H.R. 2115 could result in additional AIP contract authority of almost $12.3 billion over the 2004-2007 period. For this estimate, however, CBO assumes that appropriations will equal or exceed authorized amounts.

Aviation Security Program. H.R. 2115 would establish a fund within the Department of Homeland Security to provide grants to airports for improving security facilities. For such grants, H.R. 2115 would authorize the collection and spending of $250 million a year of fees from airline passengers over the 2004-2007 period.

The cost of the new program would be offset by fee collections authorized under the act. The Transportation Security Administration (TSA) already collects a $2.50 fee from airline passengers each time they board an aircraft (with a maximum of $5.00 per one-way trip). Under current law, such fees may be collected only to the extent provided for in advance in appropriations acts and are recorded as an offset to appropriated spending. H.R. 2115 would require TSA to collect up to $250 million a year from passengers without further appropriation action. Under H.R. 2115, we estimate that the agency would collect that amount each year. To the extent that H.R. 2115 causes such fees to be used to offset the cost of grants, they would not be available to reduce the costs of TSA spending. In other words, the collections under H.R. 2115 would lead to a reduction in the amount of fees collected as offsets to appropriated spending—essentially changing some discretionary offsetting collections into mandatory offsetting receipts.

Public Law 108-90 prohibits the agency from using fees from airline passengers to implement the proposed grant program in 2004. Therefore, CBO assumes that this provision would not take effect until 2005. Based on historical spending patterns of FAA grant programs, CBO estimates that fees collected under this provision would exceed spending for grants in the first few years. Hence, we estimate that implementing the proposed program would reduce direct spending by $171 million over the 2005-2008 period but would have no net cost over the next 10 years.

Terrorism Risk Insurance. The FAA currently offers insurance to air carriers against liability arising from losses caused by terrorist events. H.R. 2115 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 manufacturers through December 31, 2004, would be $38 million over the 2004-2008 period and $47 million over the 2004-2013 period.

Currently, the FAA collects premiums from air carriers in exchange for certain insurance coverage. Under H.R. 2115, 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 $10 million in additional premiums over the 2004-2005 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 $57 million 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.

Retirement Benefits for Certain FAA Employees. H.R. 2115 would provide some supervisors of air traffic controllers more generous retirement benefits than they receive under current law. It also would make some covered workers eligible to collect retirement benefits earlier than they otherwise could. There are about 2,500 air traffic controller supervisors currently employed by the FAA 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 will 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.

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 legislation 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 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. H.R. 2115 would provide an increase in retirement benefits for some air traffic controller supervisors. Under the act, 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. 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 act's enactment and what they would have contributed if that service had been covered all along. CBO estimates this provision would increase revenues by less than $500,000 annually.

Forgone Revenues from Increased Use of Tax-Exempt Financing. By simplifying application procedures, enacting H.R. 2115 would encourage more smaller airports to seek authority from the Secretary of Transportation to charge passenger facility fees. The Joint Committee on Taxation expects that those provisions would result in an increase in tax-exempt financing for airport construction and a subsequent loss of federal revenue. The JCT estimates that the revenue loss would be $2 million over the 2004-2008 period and $4 million over the 2004-2013 period.

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