



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 27, 2010

H.R. 5897

Economic Revitalization and Innovation Act of 2010

*As ordered reported by the House Committee on Transportation and Infrastructure
on July 29, 2010*

SUMMARY

H.R. 5897 would authorize funding for existing programs of the Economic Development Administration (EDA) through 2015. The legislation also would authorize appropriations for EDA to provide loan guarantees for the construction and renovation of business incubators and science and research parks. Assuming appropriation of the specified and necessary amounts, CBO estimates that implementing this bill would cost about \$1.3 billion over the 2011-2015 period and \$1.2 billion after 2015. Enacting H.R. 5897 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

H.R. 5897 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5897 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					2011-
	2011	2012	2013	2014	2015	2015
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
EDA Programs						
Authorization Level	500	500	500	500	500	2,500
Estimated Outlays	25	135	245	385	485	1,275
Loans Guarantees for Business Incubators and Science and Research Parks						
Estimated Authorization Level	2	5	5	7	7	26
Estimated Outlays	2	4	5	6	7	24
Total Changes						
Estimated Authorization Level	502	505	505	507	507	2,526
Estimated Outlays	27	139	250	391	492	1,299

Note: EDA = Economic Development Administration.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted near the beginning of fiscal year 2011 and that amounts specified and estimated to be necessary will be appropriated for each year.

Economic Development Administration Programs

H.R. 5897 would authorize the appropriation of \$500 million in each of fiscal years 2011 through 2015 for EDA to provide various types of assistance to encourage economic development in distressed areas. For 2010, the Congress provided a total of \$304 million to EDA, including \$255 million in regular appropriations and \$49 million for states affected by certain disasters (see Public Law 111-117 and Public Law 111-212).

In addition to authorizing the appropriation of more than \$400 million a year for public works and economic development grants to state and local entities, the bill would specifically authorize appropriations of:

- \$36 million in each fiscal year for grants covering 50 percent to 100 percent (based on relative need and other special circumstances) of the cost for economic development planning and administration;
- \$35 million in each fiscal year for a new sustainable economic development demonstration program;

- \$10 million in each fiscal year for training and research grants and technical assistance to help alleviate or prevent unemployment, underemployment, and outmigration of jobs; and
- About \$8 million for planning grants to construct and develop science and research parks.

Based on historical spending patterns of EDA programs, CBO estimates that assistance provided under this legislation would cost about \$1.3 billion over the next five years and \$1.2 billion after 2015.

Loan Guarantees for Business Incubators and Science and Research Parks

H.R. 5897 would authorize the appropriation of whatever amounts are necessary for EDA to guarantee loans for constructing and renovating business incubators (programs that foster the creation and growth of new and early-stage businesses) and science and research parks. Loan guarantees for each project could not exceed \$50 million or 80 percent of the loan, whichever is less. Aggregate loan guarantees could not exceed \$235 million in a single year or \$500 million over the 2011-2015 period.

The budgetary accounting for direct loans and loan guarantees administered by federal agencies is governed by the Federal Credit Reform Act of 1990, which requires an appropriation of the subsidy and administrative costs associated with such loan operations. The subsidy cost is the estimated long-term cost to the government of a loan or loan guarantee, calculated on a net-present-value basis, excluding administrative costs. Administrative costs, recorded on a cash basis, include activities related to making, servicing, and liquidating loans as well as overseeing the performance of lenders.

Based on the historical experience of similar projects, CBO assumes that over half of the business incubators and science and research parks that would obtain a loan guarantee under the bill would be operated or affiliated with a university or state or local government. The remainder would be developed by private entities. The credit ratings of similar projects operated by such groups indicate that the subsidy rate for this program would be about 4 percent, requiring the appropriation of about \$20 million over the 2011-2015 period to cover the cost of making \$500 million in loans. (A portion of that subsidy cost would be expended after 2015 as loans are disbursed.) Assuming the appropriation of those amounts plus an additional \$6 million for administrative costs, CBO estimates that implementing this provision would cost \$24 million over the 2011-2015 period.

Other Changes

The legislation would increase the maximum federal cost share for certain EDA projects. Under current law, the federal government covers 50 percent of the cost for public works and economic development projects, plus up to an additional 30 percent based on the relative needs of the region in which the project is located (as measured by unemployment rates and per capita income). EDA can increase the federal cost share to 100 percent for state and local governments that have exhausted their effective taxing and borrowing capacity. This legislation would allow EDA to provide similar increases for state and local governments that have had substantial declines in tax revenue and for certain grants covering planning and administrative expenses.

CBO does not expect that those or other changes to existing programs included in H.R. 5897 would significantly alter EDA expenditures; therefore, we estimate the changes would not affect the federal budget over the next five years.

H.R. 5897 also would authorize the appropriation of \$42 million in 2011 and such sums as may be necessary thereafter for the salaries and expenses of EDA employees. The Congress provided \$38 million for this purpose in 2010 (see Public Law 111-117) and authorized the appropriation of such sums as may be necessary for future fiscal years (see Public Law 108-373). CBO does not estimate additional costs for this provision above those already authorized in current law.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5897 contains no intergovernmental or private-sector mandates as defined in UMRA. State, local, and tribal governments would benefit from grants and technical assistance for economic development projects included in the bill. Any costs to those governments, including matching funds, would be incurred voluntarily as conditions of federal assistance.

PREVIOUS CBO ESTIMATE

On December 9, 2009, CBO transmitted a cost estimate for S. 2778, the Economic Development Revitalization Act of 2009, as ordered reported by the Senate Committee on Environment and Public Works on November 18, 2009. CBO estimated that implementing that bill would cost about \$1.3 billion over the 2010-2014 period and \$760 million thereafter.

H.R. 5897 and S. 2778 would provide funding for existing EDA programs at the same level but over different time periods. Each piece of legislation also would authorize

additional amounts for programs not included in the other bill. The CBO cost estimates reflect those differences.

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