

# CBO'S COST ESTIMATES EXPLAINED



Congressional Budget Office  
Nonpartisan Analysis for the U.S. Congress

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The Congress uses CBO's cost estimates to help it implement rules and procedures related to budget enforcement. Those rules and CBO's estimates recognize the fundamental differences among the three primary components of the federal budget:

- **Discretionary spending**—from authority provided in annual appropriation acts,
- **Direct (or mandatory) spending**—which is governed by underlying statutory criteria and is not generally constrained by the annual appropriation process, and
- **Revenues.**

CBO's formal cost estimates are posted on its website as they are released to the Congress. Estimates are searchable by bill number, title, committee, program area, and other criteria. A sample long-form estimate is shown here; some estimates are shorter, but they contain the same basic information.

**Summary** Various elements of CBO's estimates are presented in digest, including the bill's major provisions, changes from current law, and CBO's findings, as follows:

- Estimated changes in federal direct spending and revenues and their effects on federal deficits over the next 10 years;
- Estimated changes in spending subject to appropriation over the next 5 to 10 years;
- Whether procedures under the Statutory Pay-As-You-Go (PAYGO) Act of 2010 apply to the bill;
- Longer-term effects on net direct spending or on-budget deficits; and
- Identification of mandates as defined in the Unfunded Mandates Reform Act (UMRA) on state or local governments, Indian tribes, or private entities, and estimates of any costs of complying with those requirements.

**General Information** The bill number, title, and legislative status are shown. Most estimates are for bills that have been ordered reported by a full committee. The same bill number may appear on different estimates when a bill is considered by more than one committee or when CBO on occasion provides an estimate for legislation that has been passed by one chamber and is awaiting action in the other. The date on the estimate is the transmittal date.



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 12, 2016

### S. 2902

#### Western Water Supply and Planning Enhancement Act of 2016

*As ordered reported by the Senate Committee on Energy and Natural Resources  
on July 13, 2016*

#### SUMMARY

S. 2902 would direct the Bureau of Reclamation (BOR) to convert water service contracts with water districts in 17 western states to repayment contracts if a contractor requests it, which would allow contractors to repay their share of capital costs to the federal government earlier than would otherwise occur under current law. CBO estimates that accelerating those payments would, on net, increase offsetting receipts, which are treated as reductions in direct spending, by \$635 million over the next 10 years. Additionally, the staff of the Joint Committee on Taxation (JCT) expects that some nonfederal water contractors would finance those accelerated payments to the government with bonds that are exempt from federal taxation. JCT estimates that enacting the legislation would decrease revenues by \$77 million over the 2017-2026 period.

On net, CBO estimates that those changes in direct spending and revenues would decrease budget deficits over that 10-year period by \$558 million. Because enacting the bill would affect direct spending and revenues, pay-as-you-go procedures apply.

S. 2902 also would authorize multiple water projects. Based on information from BOR and the Bureau of Indian Affairs (BIA), CBO estimates that implementing those provisions would cost \$319 million over the next five years and \$669 million over the 2017-2026 period, assuming appropriation of the authorized and estimated amounts.

CBO estimates that enacting the bill would not increase net direct spending or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2027.

S. 2902 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

This section notes which of the 20 broad budget functions (such as national defense, agriculture, health, and income security) would be affected by the bill. A table summarizes estimated effects on the three primary components of the federal budget.

### Direct Spending

CBO's estimates are shown for increases or decreases in budget authority (authority for agencies to incur legal obligations) and in outlays that would occur if the legislation was enacted. The benchmark is CBO's 10-year baseline, which generally reflects current law. Positive numbers represent costs; negative numbers indicate savings.

### Revenues

Estimated increases or decreases in revenues are shown for proposed changes to the Internal Revenue Code (as estimated by the staff of the Joint Committee on Taxation) or for changes in other governmental receipts that would be collected if the legislation was enacted. Positive numbers indicate increases in revenues; negative numbers represent losses.

### Deficit

The estimated effects on the deficit reflect the net total of estimated changes to direct spending and revenues that would be subject to procedures under the PAYGO Act. Positive numbers represent costs; negative numbers indicate savings.

### Totals

The totals are for estimated budgetary effects over periods that are relevant for Congressional budget enforcement procedures. Estimates of changes in direct spending and revenues generally cover the current year and 10 subsequent years; estimates of changes in authorized spending subject to appropriation often cover only 5 subsequent years, as specified in the Congressional Budget Act of 1974.

### ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of S. 2902 is shown in table 1. The costs of this legislation fall within budget function 300 (natural resources and environment).

TABLE 1. Summary of Budgetary Effects Under S. 2902

|   | By Fiscal Year, in Millions of Dollars |      |      |      |      |      |      |      |      |      | 2017-2021 |           | 2017-2026 |           |
|---|--|------|------|------|------|------|------|------|------|------|-----------|-----------|-----------|-----------|
|   | 2017                                   | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2017-2021 | 2017-2026 | 2017-2021 | 2017-2026 |
| <b>INCREASES OR DECREASES (-) IN DIRECT SPENDING</b>  |  |      |      |      |      |      |      |      |      |      |           |           |           |           |
| Estimated Budget Authority <sup>a</sup>   | -170                                   | -350 | -396 | -165 | 39   | 83   | 82   | 81   | 81   | 80   | -1,042    | -635      | -1,042    | -635      |
| Estimated Outlays   | -170                                   | -350 | -396 | -165 | 39   | 83   | 82   | 81   | 81   | 80   | -1,042    | -635      | -1,042    | -635      |
| <b>DECREASES IN REVENUES</b>  |  |      |      |      |      |      |      |      |      |      |           |           |           |           |
| Estimated Revenues <sup>b</sup>   | *                                      | -2   | -4   | -7   | -9   | -11  | -11  | -11  | -11  | -11  | -22       | -77       | -22       | -77       |
| <b>NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES</b> |  |      |      |      |      |      |      |      |      |      |           |           |           |           |
| Effect on the Deficit   | -170                                   | -348 | -392 | -158 | 48   | 94   | 93   | 92   | 92   | 91   | -1,020    | -558      | -1,020    | -558      |
| <b>INCREASES IN SPENDING SUBJECT TO APPROPRIATION</b>   |  |      |      |      |      |      |      |      |      |      |           |           |           |           |
| Estimated Authorization Level   | 50                                     | 75   | 90   | 77   | 78   | 78   | 65   | 66   | 67   | 68   | 370       | 714       | 370       | 714       |
| Estimated Outlays   | 27                                     | 54   | 81   | 80   | 77   | 78   | 70   | 68   | 67   | 67   | 319       | 669       | 319       | 669       |

Components may not sum to totals because of rounding; \* = between zero and -\$500,000.

a. CBO estimates that offsetting receipts would decline by \$1.1 billion in years after 2026 for a net loss of about \$470 million over the next 30 years.

b. Estimates prepared by the staff of the Joint Committee on Taxation.

### Spending Subject to Appropriation

The estimates reflect potential changes in discretionary spending that would result if the legislation was enacted and if future appropriations were provided consistent with the legislation's provisions. The benchmark is current authorization law, which is not the basis for CBO's 10-year baseline; most such spending is authorized for one year at a time.

**Basis of Estimate** This section describes CBO's assumption about the timing of the bill's enactment and the basis of CBO's estimates:

- Proposed legislative changes that would have budgetary effects,
- Key judgments and analytical methods used to develop estimates, and
- Sources of data and information that CBO considered,
- Significant sources of uncertainty surrounding estimates.

The section typically mirrors the organization of the summary table and includes subsections describing **direct spending, revenues, spending subject to appropriation, and uncertainty**. For complicated legislation, additional tables may provide more detail on the estimated effects of particular provisions.

### Pay-As-You-Go Considerations

The PAYGO Act established budget-reporting and enforcement procedures for legislation that affects direct spending or revenues. That act can trigger across-the-board cuts (or sequestration) in mandatory budget authority if the cumulative effects of legislation enacted over the course of a session of Congress would worsen the federal deficit. The Office of Management and Budget carries out PAYGO procedures on the basis of its own estimates, but in some cases, legislation requires the Administration to use CBO's estimates.

### BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 2902 will be enacted near the end of 2016.

### Direct Spending

BOR delivers water under 860 water service and repayment contracts in 17 western states. In addition to paying for the water, contractors also pay for a portion of the estimated capital costs of constructing the reservoirs and conveyance systems that store and deliver that water. CBO estimates that in each of the next several years, those contractors will pay about \$245 million annually for their share of construction costs (including interest) to the federal government. Collectively those water contractors have

### PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in Table 3.

**TABLE 3. CBO Estimate of Pay-As-You-Go Effects for S. 2902, the Western Water Supply and Planning Enhancement Act of 2016, as Ordered Reported by the Senate Committee on Energy and Natural Resources on July 13, 2016**

|   | By Fiscal Year, in Millions of Dollars |      |      |      |      |      |      |      |      |      |      |        |      | 2016- | 2016- |
|---|--|------|------|------|------|------|------|------|------|------|------|--------|------|-------|-------|
|   | 2016                                   | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2021   | 2026 |       |       |
| NET INCREASE OR DECREASE (-) IN THE DEFICIT |  |      |      |      |      |      |      |      |      |      |      |        |      |       |       |
| Statutory Pay-As-You-Go Effect              | 0                                      | -170 | -348 | -392 | -158 | 48   | 94   | 93   | 92   | 92   | 91   | -1,020 | -558 |       |       |
| Memorandum:                                 |  |      |      |      |      |      |      |      |      |      |      |        |      |       |       |
| Changes in Outlays                          | 0                                      | -170 | -350 | -396 | -165 | 39   | 83   | 82   | 81   | 81   | 80   | -1,042 | -635 |       |       |
| Changes in Revenues                         | 0                                      | 0    | -2   | -4   | -7   | -9   | -11  | -11  | -11  | -11  | -11  | -22    | -77  |       |       |

### INCREASE IN LONG-TERM NET DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the bill would not increase net direct spending or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2027.

### Increase in Long-Term Direct Spending and Deficits

To help the House and Senate Budget Committees determine whether certain budgetary points of order apply to the legislation, this section states whether CBO estimates that net direct spending or on-budget deficits would increase by amounts greater than specified thresholds in any of the four decades after the period covered by the cost estimate.

### PAYGO Table

CBO's estimates of PAYGO effects are shown, but because that act excludes certain changes in direct spending and revenues from budget enforcement procedures, the amounts can differ from the estimated changes in net deficits presented in the summary.

**Mandates** Any intergovernmental or private-sector mandates (as defined in UMRA) that the legislation would impose are noted, as is the basis of CBO's estimate of whether the aggregate cost of complying with mandates in the bill would exceed thresholds specified in UMRA (which are adjusted annually for inflation).

#### MANDATES

S. 2902 contains no intergovernmental or private-sector mandates as defined in UMRA. State, local, and tribal governments, as well as other public entities that manage water infrastructure, would benefit from greater flexibility provided in the bill to study, permit, manage, and finance water projects supported by federal agencies. Any costs incurred by those entities under agreements with federal agencies, including cost-sharing contributions, would result from complying with conditions of federal assistance. The bill also would benefit water user associations by allowing them to prepay what they own in remaining capital obligations to the federal government for their use of federal water infrastructure.

#### Previous CBO Estimate

CBO compares its current estimate with any earlier cost estimates that it prepared for similar legislation during the same Congress.

#### PREVIOUS CBO ESTIMATE

On July 14, 2015, CBO transmitted a cost estimate for H.R. 2898, the Western Water and American Food Security Act of 2015, as ordered reported by the House Committee on Natural Resources on July 9, 2015. Some of the provisions of H.R. 2898 are similar to those in S. 2902—including those regarding the accelerated repayment of debt and expediting project reviews. CBO's estimate of the cost of those provisions reflect current and new information about the status of debt repayments.

On March 30, 2015, CBO transmitted a cost estimate for S. 438, the IRRIGATE Act, as ordered reported by the Senate Committee on Indian Affairs on March 30, 2015. S. 438 and S. 2902 have similar provisions that would establish a new Indian Irrigation Fund.

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#### Preparation and Review

The CBO analysts who prepared the cost estimate are listed and, where applicable, it is indicated that the staff of the Joint Committee on Taxation contributed to the estimate. The managers who oversaw the estimate's substantive review also are named.

Prepared by Megan Carroll, Kate Kelly, and Jorge Salazar; approved by Theresa Gullo and Robert Sunshine.  
Available online: [www.cbo.gov/publication/54437](http://www.cbo.gov/publication/54437)

For more information: *How CBO Prepares Cost Estimates*, [www.cbo.gov/publication/53519](http://www.cbo.gov/publication/53519)  
"Frequently Asked Questions About CBO Cost Estimates," [www.cbo.gov/about/products/ce-faq](http://www.cbo.gov/about/products/ce-faq)  
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