CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 10, 2008

S. 2191
America's Climate Security Act of 2007

As ordered reported by the Senate Committee on Environment and Public Works on December 5, 2007, with a proposed amendment transmitted to CBO on April 9, 2008

S. 2191 would set an annual limit or cap on the volume of certain greenhouse gases (GHGs) emitted from electricity-generating facilities and from other activities involving industrial production and transportation. Under this legislation, the Environmental Protection Agency (EPA) would establish two separate regulatory initiatives known as cap-and-trade programs—one covering most types of GHGs and one covering hydrofluorocarbons (HFCs).

EPA would distribute allowances to emit specific quantities of those gases. Some of the allowances would be allocated to the Climate Change Credit Corporation (the Corporation), an entity created by this bill. The Corporation would auction those allowances and use the proceeds to finance various initiatives, such as developing renewable technologies, assisting in the education and training of workers, and providing energy assistance for low-income households. EPA would distribute the remaining allowances at no charge, to states and other recipients, which could then sell, retire, use, or give them away. Over the 40 years that the proposed cap-and-trade programs would be in effect, the number of allowances and emissions of the relevant gases would be reduced each year.

The proposed amendment would change the allocation of those emission allowances that would be auctioned and given away at no charge. A larger portion of the available allowances each year would be auctioned, and some of the proceeds would be deposited into a Climate Change Deficit Reduction Fund in the Treasury, established by the amendment. Spending from this fund would be subject to appropriation.

CBO estimates that enacting S. 2191, as amended, would increase revenues by about $1.21 trillion over the 2009-2018 period, net of income and payroll tax offsets. Over that period, we estimate that direct spending from distributing those proceeds would total about $1.13 trillion. The additional revenues would exceed the new direct spending by an estimated $78 billion, thus decreasing future deficits (or increasing surpluses) by that amount over the next 10 years (see attached table). In addition, assuming appropriation of the necessary amounts, CBO estimates that implementing S. 2191 would increase discretionary spending by about $84 billion over the 2009-2018 period.

In years after 2018, annual direct spending would be less than the net revenues attributable to the legislation each year.

S. 2191 contains several intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that, during the first five years following enactment, states would realize a net benefit as a result of this bill's enactment (resulting from the allowances they would receive). Therefore, the annual threshold for intergovernmental mandate costs established in UMRA ($68 million in 2008, adjusted annually for inflation) would not be exceeded.

S. 2191 also would impose private-sector mandates as defined in UMRA. The most costly mandates would require certain types of private-sector entities to participate in the cap-and-trade programs for GHG emissions created by the bill. CBO estimates that the cost of those mandates would amount to more than $90 billion each year during the 2012-2016 period, and thus substantially exceed the annual threshold established in UMRA for private-sector mandates ($136 million in 2008, adjusted annually for inflation).

On April 10, 2008, CBO transmitted a cost estimate for S. 2191 as ordered reported by the Senate Committee on Environment and Public Works on December 5, 2007. Compared with the version of S. 2191 including the proposed amendment, CBO estimates that, over the 2009-2018 period, the version of the bill that was ordered reported would result in $15 billion less in revenues, $79 billion more in direct spending outlays, and $81 billion less in spending subject to appropriation. Those differences result from provisions in the amendment that would increase the portion of allowances that would be auctioned, deposit a portion of auction proceeds into a Climate Change Deficit Reduction Fund, and make spending from that fund subject to appropriation.

The staff contact for this estimate is Susanne S. Mehlman. The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.

ESTIMATED BUDGETARY IMPACT OF S. 2191, WITH A PROPOSED AMENDMENT TRANSMITTED TO CBO ON APRIL 9, 2008

	By Fiscal Year, in Billions of Dollars											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-2013	2009-2018
CHANGES IN REVENUES												
Proceeds from Auctioning Allowances:												
Allocated for Government Activities	0.9	3.0	5.4	24.9	29.9	35.4	40.2	43.8	47.7	53.3	64.1	284.5
Allocated for Deficit Reduction	0	0	0	9.9	10.9	12.0	13.1	14.3	15.6	17.5	20.9	93.4
Free Allocation of Allowances	0	1.3	4.3	114.7	104.0	109.7	115.7	121.9	128.4	130.8	224.3	830.7
Other Revenues	0	*	*	*	*	*	*	0.1	0.1	0.1	0.1	0.3
Total Estimated Revenues	0.9	4.4	9.6	149.5	144.8	157.1	169.0	180.0	191.8	201.7	309.3	1,208.9
CHANGES IN DIRECT SPENDING												
Spending from Auction Proceeds												
Estimated Budget Authority	1.2	4.0	7.2	33.1	39.8	47.3	53.5	58.4	63.6	71.1	85.4	379.4
Estimated Outlays	0.1	0.4	1.4	9.7	17.7	26.4	36.1	44.7	51.7	57.9	29.1	245.9
Spending from Freely Allocated Emission Allowances												
Estimated Budget Authority	0	1.3	4.3	121.1	110.8	116.8	123.2	129.8	136.8	139.5	237.4	883.6
Estimated Outlays	0	1.3	4.3	121.1	110.8	116.8	123.2	129.8	136.8	139.5	237.4	883.6
TVA and Other Spending												
Estimated Budget Authority	0	*	*	*	*	*	0.1	0.1	0.3	0.5	*	1.0
Estimated Outlays	0	*	*	*	*	*	0.1	0.1	0.3	0.5	*	1.0
Total Changes												
Estimated Budget Authority	1.2	5.4	11.4	154.3	150.6	164.1	176.8	188.3	200.7	211.2	322.9	1,264.0
Estimated Outlays	0.1	1.7	5.6	130.8	128.4	143.2	159.4	174.7	188.8	197.9	266.6	1,130.5
NET CHANGE IN THE BUDGET DEFICIT OR SURPLUS FROM CHANGES IN REVENUES AND DIRECT SPENDING												
Impact on Deficit/Surplus [a]	0.9	2.6	4.0	18.8	16.4	13.9	9.6	5.4	3.0	3.8	42.7	78.4
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	0.2	0.3	0.4	10.3	11.3	12.4	13.5	14.7	16.0	18.0	22.7	97.5
Estimated Outlays	0.1	0.2	0.3	4.3	9.2	11.6	12.7	13.8	15.1	16.6	14.3	84.3

Notes: * = less than $50 million; TVA = Tennessee Valley Authority.
Components may not sum to totals because of rounding.

a. Positive numbers indicate decreases in deficits (or increases in surpluses); negative numbers indicate increases in deficits (or decreases in surpluses).