CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Peter R. Orszag, Director

November 18, 2008

Honorable Robert C. Byrd
Chairman
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

The Congressional Budget Office (CBO) has reviewed S. 3689, the Economic Recovery Act of 2008, as introduced on November 17, 2008. CBO estimates that enacting this legislation would provide $89.3 billion in budget authority and result in outlays totaling $50.4 billion in 2009 and $88.4 billion over the 2009-2018 period—excluding potential additional costs for automobile industry assistance under title VI of the bill. (CBO cannot estimate the net incremental cost of enacting title VI at this time.) In addition, CBO and the Joint Committee on Taxation (JCT) estimate that enacting this bill would result in a loss of revenues totaling $10.9 billion over the 2009-2018 period (see the enclosed table). Components of that total cost are described below.

Title I – Infrastructure, Energy, and Economic Recovery

Title I includes funding for highways and other transportation, energy programs, school renovation, clean water, and a variety of other federal programs, and would provide budget authority totaling $37.4 billion in 2009 and $39.8 billion over 10 years. CBO estimates that outlays from that funding would total about $10.6 billion in 2009 and about $39.0 billion over the 2009-2018 period.

The largest single appropriation in title I is $10.0 billion for highway construction. In addition, the title includes $3.6 billion for other transportation activities such as transit programs. Most federally funded infrastructure projects take years to plan and construct, and a substantial portion of related spending occurs well after funding is provided. For example, historical spending patterns indicate that about a quarter of the funds provided for highways are spent in the first year. Typically, transit projects initially use funding slowly, spending about 15 percent of available funds in the year money is first provided. Since the bill would eliminate the usual requirements that states provide funds to match the federal contribution and because some transit funds can be used for operating rather than capital expenses, CBO estimates that these funds would be spent slightly faster than typical infrastructure projects funded by Department of Transportation. We estimate that outlays for those transportation programs would total about $3.8 billion in 2009, $5.7 billion in 2010, and $13.6 billion over the 2009-2018 period.

Title II – Nutrition Programs for Economic Stimulus

Under current law, the maximum benefit for the Supplemental Nutrition Assistance Program and the amount of funding for nutrition assistance grants to Puerto Rico and American Samoa automatically increase each year, based on the June-over-June increase in the cost of the Department of Agriculture's Thrifty Food Plan. Title II would provide an additional 10 percent increase for 2009, starting in January. It also would provide $50 million in additional administrative funds to states. CBO estimates that these provisions would cost $4.3 billion in 2009 and $4.4 billion over the 2009-2018 period.

Title III – State Fiscal Relief

Title III would provide fiscal assistance to states totaling $38.9 billion over the 2009-2010 period, by temporarily increasing federal medical assistance percentages (FMAPs) in the Medicaid program and by temporarily reinstating the authority to provide federal matching payments for state spending on child support incentive payments.

Temporary Increase of Medicaid FMAP. Under current law, the federal government pays a share of the costs that states incur in providing health services through the Medicaid program. For most medical services, the percentage of Medicaid costs paid for by the federal government is based on a formula updated annually that provides higher federal reimbursement to states with lower per capita incomes (and vice versa) relative to the national average. By law, states can receive an FMAP rate of no less than 50 percent and no more than 83 percent. The national average FMAP rate is 57 percent, with states contributing the remaining 43 percent.

Section 3001 would provide higher FMAP rates through two mechanisms. First, it would provide that in 2009 states receive the higher of the 2008 or 2009 FMAP rates in current law, and for the first quarter of 2010, states would receive the higher of the 2009 or 2010 rates in current law. Second, it would provide an 8 percentage point increase in the FMAP rates for all states and territories. States would not be permitted to change Medicaid eligibility thresholds to be any more restrictive than they were on September 1, 2008. Nor would they be permitted to require localities to pay a greater percentage of the state share of Medicaid expenditures for fiscal year 2009 and the first quarter of 2010. CBO estimates this provision would cost $29.2 billion in 2009 and $37.8 billion over the 2009-2010 period.

Temporary Reinstatement of Authority to Provide Federal Matching Payments for State Spending of Child Support Incentive Payments. This provision would suspend section 7309(a) of Public Law 109-171 for fiscal years 2009 and 2010. That section ended the practice of providing federal matching funds for state spending of child support incentive payments. This provision would allow the federal government to resume matching incentive payments during 2009 and 2010. CBO estimates this provision would cost $537 million in 2009 and $1.1 billion over the 2009-2010 period.

Title IV - Unemployment Compensation

Title IV would increase the amount of extended unemployment compensation available to individuals who exhaust their regular unemployment benefits. Public Law 105-252 provided up to 13 weeks of benefits to individuals who exhaust their regular benefits (usually up to 26 weeks) through March 31, 2009. Title IV would increase the emergency benefits by up to 7 weeks (for a total of 20 weeks). In addition, the title would create an additional tier of benefits, providing up to 13 more weeks of benefits to individuals who exhaust the 20 weeks of emergency unemployment compensation if their state has an unemployment rate of 6 percent or higher (or an insured unemployment rate above 4 percent). Only those who exhaust their 20 weeks of emergency benefits before March 31, 2009, would be eligible for the additional 13 weeks. CBO estimates those provisions would cost $5.7 billion in 2009.

Title IV also would temporarily provide federal matching funds for the first week of extended benefits in states that did not require a waiting period before extended benefits may be paid. CBO estimates that change would result in a slight increase in balances of state trust funds, which would lead to a federal revenue loss of $8 million over the 2009-2018 period. (CBO assumes that over time state employment taxes—which are recorded on the federal budget—adjust to account for benefits paid. Title IV would shift the cost of some benefits to the federal government, thus allowing states to reduce tax collections in the future.)

Title V – National Park Centennial Fund Act

Title V would establish the National Park Centennial Fund and authorize the Secretary of the Interior to spend amounts in the new fund for park initiatives on education, diversity, environmental leadership, and other activities. Funding would come from donations and appropriations from the general fund of the Treasury. CBO estimates that this title would increase outlays by $15 million in 2009 and almost $500 million over the 2009-2018 period. Title V would also increase revenues (from donations) by an estimated $24 million in 2009 and $150 million over the 2009-2018 period.

Title VI – Automotive Industry Assistance

Title VI would require the Secretary of the Treasury to provide $25 billion in direct loans to automobile manufacturers and component suppliers to support ongoing operations. Such loans would be administered under the Troubled Assets Relief Program (TARP), which was established by Public Law 110-343 and authorizes the Secretary to purchase, insure, hold, and sell up to $700 billion in troubled financial instruments.

Consistent with the budgetary treatment of financial assets purchased under the TARP, the federal budget would record the cost of such loans using procedures similar to those specified in the Federal Credit Reform Act, with an adjustment to account for market risk. On that basis, CBO estimates that the expected cost of the proposed loans would be roughly 70 percent of the aggregate face value—or about $17.5 billion. That estimate takes into account the current financial condition of firms that would qualify for loans—as demonstrated, for example, by current market interest rates on outstanding debt—and reflects historical data on defaults and subsequent amounts recovered. Under the legislation, the loans would have a maturity of 10 years or longer, as determined by the Secretary of the Treasury, and would carry an interest rate of 5 percent for the first five years after disbursement and 9 percent for remaining years.

In view of the recent deterioration in the financial condition of the automobile industry, CBO expects that the net budget cost of loans to auto manufacturers and suppliers would probably be higher than the cost of alternative uses of the TARP funds, which would likely involve firms whose credit risks are lower than those of the automobile industry. As a result, CBO anticipates that requiring the Secretary to devote $25 billion of TARP authority to the proposed loans for the automobile industry would likely result in a net increase in the federal deficit compared to current law. Because of continuing uncertainty surrounding the implementation of the TARP under current law, however, CBO cannot provide a specific estimate at this time of this legislation's incremental impact on the federal budget.

Title VII – Auto Sales Tax Deductions

Title VII would allow as a deduction from taxable income any sales and excise taxes paid upon purchase of certain types of motor vehicles after November 12, 2008, and before January 1, 2010. Additionally, the bill would allow such purchasers to deduct any interest paid or accrued on the first $24,750 ($49,500 for taxpayers filing joint returns) of indebtedness incurred before January 1, 2010, in connection with the vehicle purchase. The deductions for interest and for the sales and excise taxes would be phased out for taxpayers earning over $125,000 ($250,000 for taxpayers filing joint returns). The Joint Committee on Taxation estimates that this title would result in a revenue loss of $11.0 billion over the 2009-2018 period.

I hope this information is helpful to you. If you have further questions about this proposal do not hesitate to contact me.

Sincerely,

for Robert A. Sunshine

Peter R. Orszag
Director

Enclosure

cc: Honorable Thad Cochran
      Ranking Minority Member

Identical letter sent to the Honorable Harry Reid.

ESTIMATED COST OF S. 3689, THE ECONOMIC RECOVERY ACT OF 2008, AS INTRODUCED ON NOVEMBER 17, 2008

	By Fiscal Year, In Millions of Dollars											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-2013	2009-2018
CHANGES IN SPENDING												
Title I-Infrastructure, Energy and Economic Recovery												
Highway Construction												
Budget Authority	10,000	0	0	0	0	0	0	0	0	0	10,000	10,000
Estimated Outlays	2,700	4,500	1,700	800	200	100	0	0	0	0	9,900	10,000
Other Transportation												
Budget Authority	3,560	0	0	0	0	0	0	0	0	0	3,560	3,560
Estimated Outlays	1,142	1,161	650	450	156	1	0	0	0	0	3,559	3,560
Energy Efficiency and Renewable Energy												
Budget Authority	1,940	0	0	0	0	0	0	0	0	0	1,940	1,940
Estimated Outlays	675	585	230	169	144	137	0	0	0	0	1,803	1,940
Environmental Protection Agency												
Budget Authority	2,500	0	0	0	0	0	0	0	0	0	2,500	2,500
Estimated Outlays	100	515	750	340	180	83	33	16	12	0	1,885	2,029
School Renovation												
Budget Authority	2,500	0	0	0	0	0	0	0	0	0	2,500	2,500
Estimated Outlays	625	1,000	500	300	75	0	0	0	0	0	2,500	2,500
Western Area Power Administration												
Estimated Budget Authority	10	140	450	450	450	450	450	0	0	0	1,500	2,400
Estimated Outlays	5	30	130	300	420	450	450	380	180	0	885	2,345
Housing												
Budget Authority	1,526	0	0	0	0	0	0	0	0	0	1,526	1,526
Estimated Outlays	423	631	213	140	119	0	0	0	0	0	1,526	1,526
Coast Guard												
Budget Authority	1,310	0	0	0	0	0	0	0	0	0	1,310	1,310
Estimated Outlays	167	341	289	233	134	61	49	0	0	0	1,164	1,274
Crop Disasters												
Budget Authority	1,229	0	0	0	0	0	0	0	0	0	1,229	1,229
Estimated Outlays	640	589	0	0	0	0	0	0	0	0	1,229	1,229
Office of Justice Programs												
Budget Authority	1,090	0	0	0	0	0	0	0	0	0	1,090	1,090
Estimated Outlays	190	317	243	189	151	0	0	0	0	0	1,090	1,090
Office of Engineers												
Budget Authority	1,000	0	0	0	0	0	0	0	0	0	1,000	1,000
Estimated Outlays	205	205	205	205	180	0	0	0	0	0	1,000	1,000
National Institutes of Health												
Budget Authority	1,000	0	0	0	0	0	0	0	0	0	1,000	1,000
Estimated Outlays	237	556	153	27	10	0	0	0	0	0	983	983

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	By Fiscal Year, In Millions of Dollars											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-2013	2009-2018
Other Infrastructure												
Budget Authority	9,735	0	0	0	0	0	0	0	0	0	9,735	9,735
Estimated Outlays	3,516	2,749	1,774	984	341	84	30	0	0	0	9,364	9,478
Subtotal, Title I												
Estimated Budget Authority	37,400	140	450	450	450	450	450	0	0	0	38,890	39,790
Estimated Outlays	10,625	13,179	6,837	4,137	2,110	916	562	396	192	0	36,888	38,954
Title II-Nutrition Programs for Economic Stimulus												
Estimated Budget Authority	4,307	40	10	10	5	0	0	0	0	0	4,372	4,372
Estimated Outlays	4,307	40	10	10	5	0	0	0	0	0	4,372	4,372
Title III-State Fiscal Relief												
Estimated Budget Authority	29,737	9,189	0	0	0	0	0	0	0	0	38,926	38,926
Estimated Outlays	29,737	9,189	0	0	0	0	0	0	0	0	38,926	38,926
TitleIV-Unemployment Insurance												
Estimated Budget Authority	5,700	0	0	0	0	0	0	0	0	0	5,700	5,700
Estimated Outlays	5,700	0	0	0	0	0	0	0	0	0	5,700	5,700
Title V-National Park Centennial Fund Act												
Estimated Budget Authority	73	73	73	53	53	45	45	45	45	45	325	550
Estimated Outlays	15	40	58	69	63	55	49	47	45	45	245	486
Title VI-Automotive Industry Assistance[a]	Cannot Be Estimated At This Time											
Total Changes												
Estimated Budget Authority	77,217	9,442	533	513	508	495	495	45	45	45	88,213	89,338
Estimated Outlays	50,384	22,448	6,905	4,216	2,178	971	611	443	237	45	86,131	88,438
CHANGES IN REVENUES												
Unemployment Insurance	0	-1	-2	-2	-2	-1	0	0	0	0	-7	-8
National Park Centennial Fund Act	24	24	24	14	14	10	10	10	10	10	100	150
Auto Sales Tax Reductions	-1,268	-3,404	-2,106	-1,813	-1,337	-802	-284	0	0	0	-9,911	-10,997
Total Estimated Changes in Revenues	-1,244	-3,381	-2,084	-1,801	-1,325	-793	-274	10	10	10	-9,818	-10,855

Sources: Congressional Budget Office and Joint Committee on Taxation.

a. This table does not include potential net costs under title VI, which would require the Secretary of the Treasury to use existing funds for the Troubled Asset Relief Program (TARP) to provide $25 billion in direct loans to automobile manufacturers and component suppliers. CBO estimates that those loans would cost the government $17.5 billion. Because those loans would probably replace other uses of TARP funds, which are uncertain at this time, CBO cannot provide a specific estimate of the incremental net cost of such loans.