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

December 4, 2008

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

Dear Mr. Chairman:

As you requested, CBO has reviewed S. 3715, the Auto Industry Emergency Bridge Loan Act, as introduced on November 20, 2008. That bill would rescind $7.5 billion of funds previously appropriated to the Department of Energy (DOE) to cover the cost of providing up to $25 billion in direct loans to automobile manufacturers and component suppliers pursuant to section 136 of the Energy Independence and Security Act of 2007 (EISA). (That appropriation was designated as an emergency requirement pursuant to section 204(a) of S. Con. Res. 21 and section 301(b)(2) of S. Con. Res. 70, the concurrent resolutions on the budget for fiscal years 2008 and 2009.) Under current law, those funds are available to support loans to cover the costs of capital investments in manufacturing facilities designed to produce vehicles with greater fuel efficiency and reduced emissions. CBO expects such loans will be disbursed gradually over several years.

S. 3715 would appropriate $7.5 billion to the Department of Commerce (DOC) to cover the cost of up to $25 billion in “bridge loans” to support ongoing operations of eligible automobile manufacturers and component suppliers. (The bill would not designate that appropriation as an emergency requirement.) CBO estimates that $7.5 billion in subsidy budget authority would cover the cost of only $7.5 billion in such bridge loans because the legislation contains an additional provision that would allow the repayments from the bridge loans to be spent to support new loans under section 136 of EISA. Thus, the repayments on the initial loans would ultimately not accrue to the government; rather, they would be used to cover the costs of section 136 loans. That provision increases the estimated subsidy costs of the bridge loans to 100 percent of the aggregate face value of the loans.

Because it would rescind and appropriate the same amount of funds, S. 3715 would not provide any additional net funding for loans to the automobile industry. Under current law, however, CBO anticipates that loans under section 136 of EISA will be disbursed gradually over the next several years. In contrast, we estimate that the proposed bridge loans would be fully disbursed in 2009 and thus would result in a net increase in direct spending of roughly $7 billion in this fiscal year. That increased spending would be offset by lower spending in later years, resulting in a net increase in spending of $2.3 billion over the 2009-2013 period but no net change in spending over the 2009-2018 period. Enacting S. 3715 would not affect revenues.

S. 3715 would specify a budgetary treatment for bridge loan repayments that would depart from requirements of the Federal Credit Reform Act (FCRA). That act requires that the budgetary impact of federal credit programs be measured in terms of the net present value of projected subsidy costs. Under FCRA, agencies must receive an appropriation to cover such subsidy costs in advance of making loans. FCRA further specifies that repayments of loans are unavailable for spending, and that new loan obligations may be made only to the extent that new budget authority is provided in advance to cover estimated subsidy costs.

In contrast to the budgetary treatment under FCRA, S. 3715 would credit repayments of bridge loans to a separate fund that would be available, without further Congressional action, to support new loans authorized under section 136 of EISA. Redirecting loan repayments to a purpose other than simply repaying the bridge loans would increase the federal government’s subsidy costs to 100 percent of the aggregate face value of the loans. Thus, CBO estimates that DOC could use the subsidy budget authority provided under S. 3715 to issue only $7.5 billion in loans.

S. 3715 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Megan Carroll.

Sincerely,

Robert A. Sunshine
Acting Director

cc: Honorable Thad Cochran
Ranking Minority Member

Honorable Carl Levin