



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

March 26, 2014

### **H.R. 3674** **Federal Spectrum Incentive Act of 2013**

*As ordered reported by the House Committee on Energy and Commerce  
on December 11, 2013*

#### **SUMMARY**

H.R. 3674 would modify existing law regarding the management of the electromagnetic spectrum used by federal agencies. It would increase the amounts authorized to be spent, without further appropriation, to reimburse agencies that incur expenses when spectrum is reallocated from federal to commercial use. The bill also would authorize the use of alternative forms of compensation for agencies affected by spectrum reallocation efforts.

CBO estimates that enacting H.R. 3674 would increase net direct spending by \$30 million over the 2015-2024 period; therefore, pay-as-you-go procedures apply to the bill. In addition, CBO estimates that implementing the bill would lower discretionary spending by \$8 million over the 2015-2019 period, assuming appropriations are reduced by the necessary amounts. Enacting this bill would not affect revenues.

H.R. 3674 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of H.R. 3674 is shown in the following table. The costs of this legislation fall within budget function 950 (undistributed offsetting receipts).

	By Fiscal Year, in Millions of Dollars										2015-	2015-
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2019	2024
<b>CHANGES IN DIRECT SPENDING</b>												
Spectrum Relocation Fund <sup>a</sup>												
Estimated Budget Authority	8	8	1	1	1	1	1	1	0	0	19	22
Estimated Outlays	0	1	2	2	3	3	3	3	2	1	8	20
Federal Spectrum Incentive Fund												
Estimated Budget Authority	0	0	1	1	2	2	2	2	0	0	4	10
Estimated Outlays	0	0	0	1	1	2	2	2	2	0	2	10
Total Changes												
Estimated Budget Authority	8	8	2	2	3	3	3	3	0	0	23	33
Estimated Outlays	0	1	2	3	4	5	5	5	4	1	10	30

a. In addition, CBO estimates that implementing this provision would reduce discretionary spending by \$8 million over the 2015-2019 period, assuming appropriations are reduced by the necessary amounts.

## BASIS OF ESTIMATE

This legislation would modify the terms and procedures for transferring spectrum from federal to commercial use. Current law directs the National Telecommunications and Information Administration (NTIA) to identify federal spectrum that could be cleared for commercial use and to develop a plan for moving federal operations to different radio frequencies or services. Auctions of commercial licenses using that federal spectrum are subject to a reserve price set by the Federal Communications Commission (FCC) equal to 110 percent of the estimated cost of relocating government uses. The proceeds generated by those auctions are deposited in the Spectrum Relocation Fund (SRF) and may be spent, without further appropriation, to reimburse agencies for their relocation costs and provide additional payments under certain conditions.

H.R. 3674 would allow more agencies to use money from the SRF and would establish a new Federal Spectrum Incentive Fund (FSIF) to serve as an alternative source of compensation for agencies that have to give up their existing frequency assignments. For this estimate, CBO assumes that H.R. 3674 will be enacted during fiscal year 2014.

## Direct Spending

**Spectrum Relocation Fund.** Under current law, the authority to spend money from the SRF is limited to agencies whose spectrum assignments are being changed in order to clear frequencies for commercial use. Agencies that are indirectly affected by those relocation efforts—for example, those who are not changing frequencies but will be required to share their spectrum with another agency that is changing—are not eligible to receive money directly from the SRF to cover their relocation-related expenses. H.R. 3674 would amend the SRF’s eligibility criteria to include agencies that incur such indirect costs.

Based on information from NTIA, CBO expects that most interagency activities would involve engineering studies and ongoing coordination efforts that cost each affected agency about \$1 million a year. Agencies could begin spending from the SRF after the proceeds from each auction are deposited in the fund. Because the money in the SRF generally remains available for a period of eight years, CBO anticipates each affected agency would receive a total of about \$8 million from the SRF and that the Office of Management and Budget would record the use of budget authority in the budget when auction receipts are deposited. Outlays would be recorded in the budget as expenses are incurred.

Because not all amounts deposited in the SRF are spent under current law, CBO estimates that authorizing new expenditures from the SRF would increase net direct spending by about \$20 million over the 2015-2024 period. That estimate reflects projected spending of \$16 million by two agencies involved in an upcoming auction as well as \$4 million by agencies that may be affected by other auctions that may occur before the FCC’s auction authority expires in 2022. Although the FCC would add those newly eligible costs to the reserve price for future auctions, CBO estimates that such adjustments would have a negligible effect on offsetting receipts because CBO expects that auction proceeds will exceed the reserve price by a significant margin.

**Federal Spectrum Incentive Fund.** H.R. 3674 would give agencies a choice between having their spectrum relocation costs reimbursed by the SRF or receiving a lump-sum payment from the FSIF, subject to certain conditions. The amounts deposited into the FSIF would be limited to 1 percent of the proceeds from auctions of certain federal frequencies and generally could not be used to pay an agency’s own relocation costs. Instead, the participating agency could either use the money for purposes specified in certain appropriation acts or transfer it to other federal agencies for costs they may incur to share spectrum with the agency. An agency’s choice between the FSIF and SRF would be binding when the NTIA transmits the government’s transition plan for an auction to the FCC.

Based on information from NTIA, CBO anticipates that at least one agency would trigger spending by the FSIF in most future auctions of federal spectrum. The amount deposited in the fund would be proportionate to the quantity of spectrum contributed by the participating agencies. For example, if agencies relinquished assignments to use 10 megahertz (MHz) as part of an auction of 20 MHz of federal spectrum, the FSIF would receive half of 1 percent of the proceeds. Under the bill, all of the proceeds deposited in the fund would be spent without future appropriation, regardless of the number of agencies that choose to use this fund.

For this estimate, CBO assumes that the FSIF would not be used for the upcoming auction of federal frequencies because the NTIA expects to submit a transition plan to the FCC before this bill is assumed to be enacted. Although CBO expects that more federal spectrum will be made available for commercial use in later years, the terms and conditions of those offerings could vary widely. Based on recent agency reports, CBO estimates that the net proceeds from such auctions could range from a few million dollars to several billion dollars, depending on the terms and conditions of the transactions. Using the current baseline projections for auction receipts and adjusting for the possibility that agencies may relinquish a portion of the spectrum being auctioned, CBO estimates that establishing the FSIF would lead to an increase in net direct spending about \$10 million on an expected value basis over the 2015-2024 period.

Finally, any potential reduction in spending by the SRF or increase in auction receipts would be negligible, CBO estimates. Given the spending restrictions in the bill and the relatively small amounts that would be available, CBO expects that the FSIF would primarily be used when an agency could discontinue a spectrum operation at little or no cost and without any significant operational effects.

### **Spending Subject to Appropriation**

Reimbursing certain indirect costs from the SRF would reduce the need for appropriations for those activities. Assuming appropriations are reduced by corresponding amounts, CBO estimates that implementing H.R. 3674 would reduce discretionary costs by \$8 million over the 2015-2019 period.

### **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 that are subject to those pay-as-you-go procedures are shown in the following table.

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**CBO Estimate of Pay-As-You-Go Effects for H.R. 3674 as ordered reported by the House Committee on Energy and Commerce on December 11, 2013**

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	By Fiscal Year, in Millions of Dollars												2014- 2019	2014- 2024
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024			
Statutory Pay-As-You-Go Impact	0	0	1	2	3	4	5	5	5	4	1	10	30	

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**INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

H.R. 3674 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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