



CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 9, 2002

H.R. 5005
Homeland Security Act of 2002

As introduced on June 24, 2002

SUMMARY

H.R. 5005 would establish the Department of Homeland Security (DHS) to prevent terrorist attacks within the United States, reduce the United States' vulnerability to terrorism, minimize the damages from attacks that occur, and help to recover from any attacks. The new department's primary responsibilities would include: (1) analyzing information and protecting infrastructure; (2) developing countermeasures against chemical, biological, radiological, and nuclear attacks; (3) securing U.S. borders and transportation systems; (4) organizing emergency preparedness and response efforts; and (5) coordinating counterterrorism activities with other federal agencies, state and local governments, and the private sector. The new department would consist of over 30 existing federal agencies or portions of agencies. Each of these agencies would continue to be responsible for carrying out its other, nonhomeland-security functions.

CBO estimates that implementing H.R. 5005 would cost about \$3 billion over the 2003-2007 period, assuming appropriation of the necessary amounts. This amount is in addition to projected net spending for ongoing activities of the transferred agencies—about \$20 billion in 2002, growing to \$31 billion by 2007 under CBO's baseline assumptions. Enacting H.R. 5005 could affect direct spending by authorizing the new department to retain and spend proceeds from the sale or lease of government property; therefore, pay-as-you-go procedures would apply. CBO expects, however, that the net effect on direct spending would not be significant in any year.

The bill 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

H.R. 5005 would combine over 30 existing agencies and programs to form the new department. The major components would include the following:

- Federal Emergency Management Agency (FEMA);
- U.S. Secret Service;
- U.S. Customs Service;
- U.S. Coast Guard;
- Immigration and Naturalization Service (INS);
- Transportation Security Administration of the Department of Transportation;
- Federal Protective Service and Federal Computer Incident Response Center of the General Services Administration;
- National Infrastructure Protection Center, National Domestic Preparedness Office, Office for Domestic Preparedness, and Domestic Agency Support Teams of the Department of Justice;
- Critical Infrastructure Assurance Office and Computer Security Division of the National Institute of Standards and Technology of the Department of Commerce;
- National Communications System of the Department of Defense;
- Animal, Plant and Health Inspection Service (APHIS) and the Plum Island Animal Disease Center of the Department of Agriculture; and
- Various programs of the Department of Energy and the Department of Health and Human Services.

The following table summarizes the estimated net budgetary impact of reorganizing these agencies and programs, administering them within a new cabinet-level department, and implementing certain new activities authorized by the bill. The first two lines of the table show funding for the agencies and programs to be transferred at the CBO baseline levels (that is, the 2002 appropriation adjusted for anticipated inflation in succeeding years). The table also shows, as a memorandum item, the estimated direct spending of federal agencies transferred to the department. CBO estimates that the amount of direct spending would not be affected by enactment of the bill.

The costs of this legislation fall within budget functions 050 (national defense), 250 (general science, space and technology), 350 (agriculture), 370 (commerce and housing credit), 400 (transportation), 450 (community and regional development), 550 (health), 750 (administration of justice), and 800 (general government).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 5005

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
SPENDING SUBJECT TO APPROPRIATION						
Net Spending By Affected Agencies						
Under Current Law						
Estimated Authorization Level ^a	25,309	26,037	26,710	27,395	28,096	28,823
Estimated Outlays	19,751	22,443	23,934	25,724	27,074	28,207
Proposed Changes						
Reorganize Agencies and Administer New Department						
Estimated Authorization Level	0	150	225	230	235	240
Estimated Outlays	0	120	210	229	234	239
Bio-Weapons Defense Analysis Center						
Estimated Authorization Level	0	420	429	438	447	457
Estimated Outlays	0	231	362	433	442	451
New Intelligence-Related Activities						
Estimated Authorization Level	0	30	10	10	10	10
Estimated Outlays	0	20	20	10	10	10
Other Newly Authorized Activities						
Estimated Authorization Level	0	2	2	2	2	2
Estimated Outlays	0	2	2	2	2	2
Total Changes						
Estimated Authorization Level	0	602	666	680	694	709
Estimated Outlays	0	373	594	674	688	702
Net Spending Under H.R. 5005						
Estimated Authorization Level	25,309	26,639	27,376	28,075	28,790	29,532
Estimated Outlays	19,751	22,816	24,528	26,398	27,762	28,909
MEMORANDUM:						
Net Direct Spending By Affected Agencies Under Current Law and Under H.R. 5005^b						
Estimated Budget Authority	430	484	2,070	2,217	2,284	2,469
Estimated Outlays	246	436	2,017	2,113	2,165	2,221
<p>a. The 2002 level is the amount appropriated for that year for agencies that would be combined to form the Department of Homeland Security. The estimated authorization levels for 2003 through 2007 are CBO baseline estimates that adjust the amounts appropriated for 2002 for anticipated inflation. Those amounts are net of offsetting collections credited to appropriation accounts.</p> <p>b. CBO estimates that the amount of direct spending by agencies that would be combined to form the new department would not be changed by enacting H.R. 5005. Authority to collect Customs user fees expires at the end of 2003. CBO estimates that those fees will total \$1.3 billion in 2003.</p>						

BASIS OF ESTIMATE

CBO estimates that implementing H.R. 5005 would cost about \$3 billion over the 2003-2007 period, assuming appropriation of the necessary funds. These costs are in addition to those that would be incurred by the Office of Homeland Security under current law. They include expenses to establish and administer a new cabinet-level department and carry out within the department new activities and programs authorized by the bill. This estimate does not include additional funds to enhance the homeland security functions of the agencies that would be transferred to the new department.

For this estimate, CBO assumes that H.R. 5005 will be enacted before January 1, 2003, and that the necessary funds will be appropriated for each fiscal year. The estimated costs of implementing the bill are based on information obtained from affected federal agencies and on the administrative expenses of other federal departments.

Consolidate Affected Agencies and Administer the New Department

CBO estimates that establishing and administering the new department would cost about \$150 million in fiscal year 2003 and about \$225 million a year thereafter, adjusted annually for anticipated inflation.

Costs to Consolidate Agencies. Most of the estimated 2003 authorization level would be spent on one-time costs to hire, house, and equip key personnel to manage the new 170,000-person department. New positions would include appointees such as assistant secretaries, key managers such as a general counsel and inspector general, and other departmental-level personnel to perform administrative functions such as policy development, legislative affairs, and budget and finance activities. Two of the largest costs of consolidation would be for providing and equipping office space for the central administrative staff.

CBO estimates that initially the General Services Administration would need to renovate and furnish office space for key personnel needed to support a cabinet-level department. The preparation of office space typically constitutes a significant portion of the start-up budget for a new department. For example, we estimate that the cost to renovate and furnish enough space to accommodate the new Department of Energy in the late 1970's was nearly \$40 million (in current dollars). This effort did not include costs incurred later to consolidate most of the department's operations into a central, permanent facility. We expect that eventually some staff of the agencies consolidated into the new Homeland Security Department also would be centralized in a new facility, either by constructing or leasing a new building or by taking over the space of another federal agency. For this estimate, we

further assume that employees of the transferred entities that currently work in the Washington, D.C., area—over 7,000—are not relocated to a central location within the next five years.

Additional one-time costs to purchase computers, network equipment, and supplies in the first years following creation of the new department also would be significant. Probably, the largest of these costs would be the acquisition of basic computer systems for administrative functions, such as budget and finance, as well as for information management and communications. For this estimate, CBO has not included the cost of efforts to address existing deficiencies in communications and computer infrastructure in some of the agencies that would be transferred to the new department because those costs are not a result of creating a new Department of Homeland Security. Moreover, we have not included costs that are already being incurred by transferred agencies for new data collection systems that could be helpful for homeland security. For example, the U.S. Customs Service has already received nearly \$700 million for a new system to process trade data, information that could be used by the new department to monitor cargo shipments into the United States.

Ongoing Administrative Costs. CBO estimates that it would cost about \$225 million annually to provide centralized leadership, coordination, and support services for the DHS. The estimated annual cost represents about 1 percent of the current spending for agencies that would form the new department and is based on the assumption that a proportionate share of each combined agency or office would be transferred to the DHS from the department where it is currently located. If sufficient resources are not transferred to the new department, added annual costs would be higher. For this estimate, CBO assumes that new departmental staff would be hired over the first two to three years following enactment of the legislation.

New Human Resources Management System. The estimate does not include any budgetary impact that might result from implementing section 730, which would create a new human resources management system for the new department. CBO cannot predict whether (or to what extent) the new pay and retirement systems would supplant—or improve upon—those currently governing the federal entities to be transferred to the new department.

New Program Authorizations

H.R. 5005 would authorize a few new programs for the Department of Homeland Security that are not currently conducted by any of the agencies that would be transferred to the new department. Based on information from the Administration and the costs of other similar

efforts, CBO estimates that those new efforts would cost about \$450 million a year, subject to appropriation of the necessary amounts.

National Bio-Weapons Defense Analysis Center. Section 907 of the bill would establish a National Bio-Weapons Defense Analysis Center within the Department of Defense. The bill also would transfer this function to the new department. This new agency would be responsible for coordinating public and private research on biological counterterrorism and on area monitoring systems. The cost of operating this center would depend on the amount of funding that the Congress chooses to provide for this research as well as the degree to which existing agencies and personnel are consolidated into the new agency. CBO estimates that implementing this provision would cost about \$420 million a year (adjusted for inflation), based on the level of funding requested by the President for this proposed center in fiscal year 2003.

Intelligence-Related Activities. H.R. 5005 would give the Department of Homeland Security access to all executive agency reports, assessments, and analytical information relating to the responsibilities of the new department. Analysis of intelligence is not currently performed by any of the agencies that would be transferred to the new department, and the level of effort anticipated for this activity is unknown. Assuming the DHS undertakes an effort on the scale of a similar program at the Federal Bureau of Investigation that integrates intelligence collected by other agencies, CBO estimates that the new department would need to spend about \$20 million for information technology systems and \$10 million a year for personnel and other expenses to analyze intelligence information.

Other Newly Authorized Activities. In addition, H.R. 5005 would authorize two other new programs at DHS—one related to public health and the other to responses to nuclear incidents. CBO estimates that those new programs would cost:

- An estimated \$1 million annually to coordinate biological, biomedical, and infectious disease research and development through agreements with the Department of Health and Human Services (HHS), and
- An estimated \$1 million a year to coordinate and prepare to manage the Nuclear Incident Response Team (which would continue to reside within the Department of Energy and the Environmental Protection Agency) in the event of a nuclear incident.

Costs to Continue Agency Functions and Enhance Homeland Security Mission

As shown in Table 2, CBO estimates that budget authority for the agencies that would form DHS totals close to \$31 billion in 2002 (including both mandatory and discretionary accounts). About \$5 billion of that amount is offset through various fees and collections. Three agencies account for more than half of the 2002 funding—FEMA, the Coast Guard, and the INS. Together with the Customs Service and the chemical and biological research and response functions of the Department of Health and Human Services, they account for more than 80 percent of the 2002 funding.

For 2003, funding for the new department would almost certainly be higher. CBO estimates that the President's 2003 budget would provide about \$35 billion in funding for functions and agencies that the bill would transfer to the Department of Homeland Security, which is about a 14 percent increase over 2002 spending for these same functions. This figure includes both mandatory and discretionary budget authority. Receipts for those agencies also would grow to over \$6 billion.

CBO's estimate of the cost of establishing a Department of Homeland Security as specified in H.R. 5005 does not include additional funding for the affected agencies to enhance their homeland security functions, except for those added responsibilities specified in the bill. The CBO baseline funding level for those agencies in 2003 and beyond assumes adjustments to account for anticipated inflation but does not reflect the amount of additional spending that may be necessary to prevent terrorist attacks, reduce the nation's vulnerability to attacks, and recover from any attacks. CBO has not estimated how much those agencies might need to spend to enhance homeland security. Such additional spending may occur whether or not a new department is created.

TABLE 2. CBO ESTIMATES OF 2002 ENACTED SPENDING AND THE PRESIDENT'S 2003 REQUEST FOR AGENCIES AFFECTED BY THE PROPOSED CREATION OF THE DEPARTMENT OF HOMELAND SECURITY (In billions of dollars)

	Discretionary Budget Authority ^a	Estimated Mandatory Budget Authority	Estimated Fees and Receipts ^b
Enacted for 2002			
Federal Emergency Management Agency	7.7	0.0	-0.1
Coast Guard (DOT)	4.4	1.0	0.0
Immigration and Naturalization Service (DOJ)	4.0	1.8	-2.2
HHS Chemical and Biological Research and Response	2.7	0.0	0.0
Customs Service (Treasury)	3.1	0.6	-1.2
Secret Service (Treasury)	1.0	0.2	0.0
Animal and Plant Health Inspection Service (USDA)	0.7	0.3	0.0
Federal Protective Services (GSA)	0.4	0.0	0.0
Transportation Security Agency (DOT)	1.3	0.0	-1.3
Other Affected Agencies	<u>1.1</u>	<u>0.0</u>	<u>0.0</u>
Total	26.6	4.0	-4.8
Proposed for 2003			
Federal Emergency Management Agency	6.6	0.0	-0.1
Coast Guard (DOT)	5.0	1.0	0.0
Immigration and Naturalization Service (DOJ)	4.0	1.8	-2.1
HHS Chemical and Biological Research and Response	4.1	0.0	0.0
Customs Service (Treasury)	3.0	0.6	-1.5
Secret Service (Treasury)	1.0	0.2	0.0
Animal and Plant Health Inspection Service (USDA)	0.8	0.5	0.0
Federal Protective Services (GSA)	0.4	0.0	0.0
Transportation Security Agency (DOT)	4.8	0.0	-2.7
Other Affected Agencies	<u>1.1</u>	<u>0.0</u>	<u>0.0</u>
Total	30.8	4.0	-6.3

NOTE: Numbers may not add up to totals due to rounding.

- a. Does not include the Administration's proposal that federal agencies pay the full cost of benefits for their employees as such benefits accrue. Such payments would total about \$1.4 billion in 2003.
- b. Includes offsetting collections credited to appropriation accounts as well as offsetting receipts; excludes fees classified as revenues.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. Although the legislation would affect programs involving direct spending, such as the Immigration and Naturalization Service's immigration fees, the U.S. Coast Guard's boat safety grants, and the Animal and Plant Health Inspection Service's animal quarantine inspection fees, CBO estimates that enacting H.R. 5005 would have no effect on existing direct spending or receipts because the legislation would not change any of those programs.

The bill would authorize the new department to spend proceeds resulting from sales and leases involving real or related personal property without further appropriation. Under current law, most proceeds from such activities must be deposited in the Treasury. CBO expects that the Department of Homeland Security would use its leasing and sales authorities under the bill to obtain funds for capital improvements. We expect that enacting this bill would accelerate the pace of sales of surplus property and would lead to greater subleasing or leasing of underutilized property because it would provide an incentive by allowing the department to spend proceeds from sales and leases. CBO estimates that such transactions would have no significant net effect on direct spending in any year.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On June 17, 2002, CBO transmitted a cost estimate for S. 2453, the National Homeland Security and Combating Terrorism Act of 2002, as ordered reported by the Senate Committee on Governmental Affairs on May 22, 2002. While both S. 2453 and H.R. 5005 would authorize the establishment of a Department of Homeland Security, they would consolidate different agencies to form the new department and would authorize some different activities for the new department. CBO's cost estimates for the two bills reflect these differences.

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