CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 26, 1999

H.R. 818
Disaster Mitigation Coordination Act of 1999

As ordered reported by the House Committee on Small Business on February 25, 1999

SUMMARY

H.R. 818 would establish a pilot program to make direct and guaranteed loans to small businesses for preventive measures that would reduce the long-run costs of disasters. The bill would authorize a program level of $15 million (for the total of direct and guaranteed loans) for each of the fiscal years 2000 through 2004.

Based on information from the Small Business Administration (SBA) and the historical experience of SBA's loan programs, CBO estimates that the SBA would require an annual appropriation of $3 million to cover the subsidy costs of the proposed program. Outlays would be about $2 million in 2000 and $3 million in each year during the 2001-2004 period, assuming appropriation of the necessary amounts.

H.R. 818 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply. H.R. 818 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

For the purposes of this estimate, CBO assumes that H.R. 818 will be enacted by the beginning of fiscal year 2000 and that the necessary amounts will be appropriated for each year. The estimated budgetary impact of H.R. 818 is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development).

	By Fiscal Year, in Millions of Dollars				
	2000	2001	2002	2003	2004
SPENDING SUBJECT TO APPROPRIATION					
Estimated Authorization Level	3	3	3	3	3
Estimated Outlays	2	3	3	3	3

BASIS OF ESTIMATE

Under current law, the SBA lends to homeowners and businesses that have been victims of disasters. In 1998, SBA approved about $623 million in post-disaster loans to homeowners and businesses. H.R. 818 would authorize a new pilot program to make direct and guaranteed loans to small businesses for preventive measures that would reduce the long-run costs of disasters. To be eligible for such a loan, a small business must be unable to obtain a loan elsewhere for the purpose of such pre-disaster mitigation.

The Federal Credit Reform Act of 1990 requires appropriation of the subsidy costs and administrative costs for credit programs. The subsidy cost is the estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis and excluding administrative costs. Based on information from SBA, CBO estimates that the subsidy costs of making loans under the proposed mitigation program would be similar to the subsidy costs of making loans under the existing disaster program, or about 22 percent of the original value of the loan. Borrowers under the mitigation program would not be as likely to default as similar businesses under the disaster program because they would not yet be victims of disasters. However, the disaster program also lends to homeowners, which are generally less risky borrowers than small businesses, and the mitigation loans would only serve small businesses that are unable to obtain loans elsewhere. Finally, loans for disaster mitigation would not increase the gross receipts of a borrower, but would increase payments for debt.

At a 22 percent subsidy rate, the SBA would need appropriations of about $3 million a year to make the authorized loans and loan guarantees. CBO estimates that subsidy outlays would be $2 million in 2000 and $3 million each year during the 2001-2004 period. SBA would also incur some new administrative costs, both for managing the program and preparing a report that would be required by the bill. CBO estimates that such costs would be well below $500,000 in any year.

PAY-AS-YOU-GO CONSIDERATIONS: None.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 818 contains no intergovernmental or private sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATE PREPARED BY: Mark Hadley

ESTIMATE APPROVED BY:

Robert A. Sunshine
Deputy Assistant Director for Budget Analysis