



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

September 24, 2007

H.R. 3567

Small Business Expansion Act of 2007

As ordered reported by the House Committee on Small Business on September 20, 2007

SUMMARY

H.R. 3567 would reauthorize the Small Business Administration's (SBA's) New Markets Venture Capital Program (NMVC), amend its surety guarantee program, and change certain investment limits imposed on SBA's small business investment program. The bill also would establish the Angel Investment Program to provide venture capital to certain groups working with small businesses in their communities. Finally, the SBA would be required to produce a number reports for the Congress about the effectiveness of the program changes authorized by the bill.

Based on information from SBA, CBO estimates that implementing H.R. 3567 would cost \$8 million in 2008 and \$102 million over the 2008-2012 period, assuming appropriation of the necessary and specified amounts. Enacting H.R. 3567 would not affect direct spending or revenues.

H.R. 3567 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3567 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
New Markets Venture Capital Program					
Loan Guarantees					
Estimated Authorization Level	2	2	2	0	0
Estimated Outlays	1	2	2	1	0
Grants					
Authorization Level	2	2	1	0	0
Estimated Outlays	0	1	2	1	1
Angel Investment Program					
Equity Investments					
Authorization Level	10	20	20	0	0
Estimated Outlays	2	26	20	2	0
Grants					
Authorization Level	2	2	2	0	0
Estimated Outlays	0	1	1	1	1
Administrative Cost					
Authorization Level	1	0	0	0	0
Estimated Outlays	1	0	0	0	0
Surety Bond Fees					
Estimated Authorization Level	8	8	8	8	8
Estimated Outlays	4	8	8	8	8
Total Changes					
Estimated Authorization Level	25	34	33	8	8
Estimated Outlays	8	38	33	13	10

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted near the start of fiscal year 2008, that the necessary amounts will be appropriated for each fiscal year, and that spending for programs authorized by the bill will follow historical spending patterns for similar SBA programs.

The budgetary accounting for SBA's direct loan and loan guarantee programs is governed by the Federal Credit Reform Act (FCRA) of 1990, which requires an appropriation of subsidy and administrative costs associated with loan guarantees and loan operations. The subsidy

cost is the estimated long-term cost to the government of a loan or loan guarantee, calculated on a net-present-value basis, excluding administrative costs. Administrative costs, recorded on a cash basis, include activities related to making, servicing, and liquidating loans as well as overseeing the performance of lenders.

The effect of the changes that H.R. 3567 would make to SBA's small business investment programs is measured in terms of projected subsidy costs. The bill does not specify an authorization level for either the subsidy or administrative costs, if any, that could be incurred as a result of implementing the amendments in the bill. CBO has estimated those amounts based on information from SBA regarding the historical demand for credit assistance and costs of the agency's small business investment programs. CBO assumes that administrative activities related to those loans would need to continue beyond the 2008-2010 authorization period addressed in this bill.

New Markets Venture Capital Program (NMVC)

The bill would reauthorize the NMVC for three years, through 2010, by authorizing the appropriation of funds sufficient to offer \$30 million in loan guarantees and \$5 million in technical assistance grants over the three-year period. The bill would direct SBA to approve at least one company from each of SBA's geographic regions to participate in the program, if practicable. H.R. 3567 also would authorize SBA to award technical assistance grants to companies that have received conditional, but not yet final, approval to participate in the program.

Based on information from SBA, CBO expects that the subsidy rate for the NMVC program would be about 17 percent. CBO estimates that reauthorizing the NMVC program would cost \$1 million in 2008 and \$11 million over the 2008-2012 period, assuming appropriation of the necessary and specified amounts. Of the five-year total, \$6 million would be for costs associated with extending loan guarantees; the remaining \$5 million would be for costs associated with awarding technical assistance grants.

Angel Investment Program

The bill would authorize a new program to provide equity investments in "angel groups" to provide capital to small businesses located in their communities. As a condition of participation in the program, such groups would be required to repay SBA for any investments that earn a profit. Any amount to be repaid would be prorated based on the share of capital provided by SBA. Repayments would be held by SBA for the purpose of providing new financing to angel groups, subject to provisions in annual appropriation acts.

Based on information from SBA, CBO expects that equity investments in angel groups would take several years to generate profits; therefore, a negligible amount of repayments would be collected from such groups over the 2008-2012 period. Moreover, no direct spending savings from such profit-sharing receipts could be credited to this legislation because subsequent appropriation acts would determine the amount and timing of any federal funds made available for the Angel Investment Program.

The bill would establish the Office of Angel Investments within SBA to oversee the Angel Investment Program, to develop a database of information related to angel groups and angel investors, and to award grants to eligible entities to develop new angel groups.

The bill would authorize the appropriation of \$13 million in 2008 and \$57 million over the 2008-2012 period to carry out the investment, grant, and administrative activities of the program. Based on information from SBA, CBO estimates that implementing the Angel Investment Program would cost \$3 million in 2008 and \$55 million over the 2008-2012 period, assuming appropriation of the specified amounts.

Surety Bond Program

The bill would authorize SBA to delegate its authority to issue, monitor, and service surety bonds to entities approved by SBA for such activities. The bill also would eliminate fees that are currently charged to contractors and sureties under the program and authorize the appropriation of sufficient funds to offset the loss of income from fees.

Under current law, SBA's surety bond program provides guarantees to eligible contractors that SBA will reimburse the surety (an entity issuing an assurance that a contractor will perform according to the terms of a signed contract) for a portion of the loss should the contractor breach the terms of the contract. To cover the costs of those guarantees, fees are paid to SBA by both the contractor receiving the guarantee, and the surety that issues the bond for the contractor's performance. In 2006, SBA provided guarantees under the surety bond program for about 5,000 bonded contracts and collected about \$7 million in fees. (Those collections are recorded as an offset to discretionary appropriations.) Based on information from SBA, CBO expects that eliminating the fees paid by participants would lead to a small increase in participation in the program.

Guarantees provided under the surety bond program are recorded as cash expenditures rather than net-present-value costs under FCRA. This is because under the surety bond program, SBA is not guaranteeing repayment under a contract for a loan; rather, it is guaranteeing actual performance under a contract for services, which does not qualify as a loan or loan guarantee under FCRA. CBO estimates that implementing this provision of H.R. 3567

would cost \$4 million in 2008 and \$36 million over the 2008-2012 period, assuming appropriation of the necessary amounts.

Other Provisions

H.R. 3567 would amend provisions of current law that limit the amount of capital SBA can provide to participating small business investment companies (SBICs). Among other things, the bill would change the method for calculating the maximum amount of capital that can be provided to SBICs and raise those limits for SBICs that agree to invest specific amounts in companies owned by individuals from socially or economically disadvantaged or low-income areas, veterans, or members of the National Guard or Reserves. Based on information from SBA, CBO estimates that those changes to the operations of the small business investment program would have an insignificant effect on the federal budget.

The bill also would require SBA to produce four reports for the Congress that assess either the current practices of programs authorized by the bill or the effectiveness of new programs. CBO estimates that the cost of producing those reports would be less than \$500,000 per year over the 2008-2012 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3567 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would benefit state and local governments by authorizing grants to develop in investment program for small business.

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