



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

November 9, 2007

H.R. 3866

Small Business Programs Act of 2007

As ordered reported by the House Committee on Small Business on October 18, 2007

SUMMARY

H.R. 3866 would reauthorize the business and disaster loan programs of the Small Business Administration (SBA) through 2009. The bill also would reauthorize other SBA programs that provide technical and operational assistance to small businesses through 2009.

Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 3866 would cost \$3.0 billion in 2008 and \$12.5 billion over the 2008-2012 period. About \$1.6 billion of this amount is the estimated subsidy and administrative cost of continuing SBA's credit programs, and about \$10.9 billion would be for SBA's noncredit programs. CBO estimates that enacting the bill would not affect direct spending or revenues.

H.R. 3866 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. 3866 is shown in the following table. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 450 (community and regional development).

ESTIMATED BUDGETARY IMPACT OF H.R. 3866

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Guaranteed and Direct Business Loan Programs					
Subsidy Costs					
Estimated Authorization Level	13	14	0	0	0
Estimated Outlays	7	13	7	0	0
Administration Costs					
Estimated Authorization Level	127	131	135	139	143
Estimated Outlays	90	121	130	135	138
Disaster Loan Programs					
Subsidy Costs					
Estimated Authorization Level	165	165	0	0	0
Estimated Outlays	83	148	83	16	0
Administration Costs					
Estimated Authorization Level	120	123	127	130	133
Estimated Outlays	92	114	122	126	129
Total Loan Programs					
Estimated Authorization Level	425	433	262	269	276
Estimated Outlays	272	396	342	277	268
Noncredit Programs and Costs					
Participating Securities					
Estimated Authorization Level	4,500	4,500	0	0	0
Estimated Outlays	2,385	4,320	2,025	180	90
Other Noncredit Programs					
Estimated Authorization Level	545	571	300	309	318
Estimated Outlays	387	527	362	312	310
Total Noncredit Programs					
Estimated Authorization Level	5,045	5,071	300	309	318
Estimated Outlays	2,772	4,847	2,387	492	400
Total Spending Under H.R. 3866					
Estimated Authorization Level	5,470	5,504	562	578	594
Estimated Outlays	3,044	5,243	2,729	769	668

MEMORANDUM:

Authorized Loan Level					
Guaranteed and Direct Business Loans	33,410	33,920	0	0	0
Disaster Loans	1,015	1,015	0	0	0

Note: SBA has not yet received a full-year appropriation for fiscal year 2008. Appropriations to the agency for 2007 totaled nearly \$357 million. In fiscal year 2007, no appropriation was made for the participating securities program.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted by the end of calendar year 2007 and that the necessary amounts will be appropriated each year. We assume that spending will follow historical patterns for the various SBA loan and business assistance 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 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 the lenders.

The effect of the changes H.R. 3866 would make to SBA's business and disaster loan 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 and costs of the agency's business and disaster loan programs. We assume that administrative activities related to those loans would continue beyond the 2008-2009 period.

H.R. 3866 would authorize SBA to continue its direct loan and loan guarantee programs as well as various technical assistance and support programs for fiscal years 2008 and 2009. Based on information from SBA and historical spending patterns for the agency's programs, CBO estimates that implementing those provisions would cost \$12.5 billion over the 2008-2012 period, assuming appropriation of the necessary amounts.

Guaranteed and Direct Business Loan Programs

The following loan programs would be authorized by H.R. 3866:

- The 7(a) program, which provides limited guarantees on loans made by certain lending institutions to small businesses;
- The certified development company (CDC) program (also known as section 504 loans), which provides guarantees on debentures issued by CDCs to provide funding to small businesses for major fixed assets such as land, structures, machinery, and equipment;

- The microloan program, which provides loans to nonprofit lenders which then offer loans to small businesses just starting up whose capital needs are too small to qualify for the 7(a) program; and
- The Small Business Investment Company (SBIC) debenture program, which provides funding to privately owned companies that provide venture capital to small businesses.

General Business Loans. The bill would authorize SBA to guarantee loans and make direct loans to small businesses, with a total loan value up to about \$29 billion in 2008 and about \$30 billion in 2009. By comparison, the authorized loan level for 2007 was about \$28 billion, and the agency funded direct and guaranteed loans worth about \$21 billion in that year.

The estimated subsidy rates for the business loan programs offered by SBA range from zero for the 7(a) and section 504 programs to about 10 percent for the microloan program. Using historical demand and default rates for those loan programs, CBO estimates that the subsidy costs for the authorized levels of guaranteed and direct business loans would be \$7 million in 2008 and \$27 million over the 2008-2012 period.

Small Business Investment Company Program. The bill also would authorize SBA to purchase \$4.0 billion in debentures in each of fiscal years 2008 and 2009. Under the debenture program, SBA would guarantee debentures (that is, long-term debt issued by SBICs to provide venture capital funding to small businesses).

The debenture program is treated as a credit program under FCRA. The estimated subsidy rate for the program is zero because SBA charges fees sufficient to cover the cost of guaranteeing the debentures. CBO estimates, therefore, that guarantees under the debenture program would have no cost.

Administrative costs. As specified in FCRA, subsidy rates do not reflect the administrative costs to service loan programs. CBO estimates that the administrative costs for the business loans authorized in the bill would be \$90 million in fiscal year 2008 and \$615 million over the 2008-2012 period.

Disaster Loan Programs

H.R. 3866 would authorize SBA's disaster loan program as well as the disaster mitigation pilot program. Based on information from SBA, CBO estimates that the subsidy cost provisions would be \$83 million in 2008 and \$330 million over the 2008-2012 period. Under FCRA, subsidy rates do not reflect the administrative costs to service the loans. CBO estimates that administrative costs would be \$92 million in 2008 and \$583 million over the 2008-2012 period. Taken together, CBO estimates that authorizing SBA's disaster loan programs would cost \$175 million in 2008 and \$913 million over the 2008-2012 period.

General Disaster Loans. H.R. 3866 would reauthorize SBA's disaster loan program through 2009. This program provides direct loans to businesses and households in areas affected by a disaster for the costs of economic injury and repair. CBO expects that the demand for SBA disaster loans over the next several years will be about \$1 billion per year. This assumption is based on the historical average of approved disaster loans plus an additional amount reflecting the probability that a catastrophe similar to Hurricane Katrina could strike in a given year.

The Administration estimates that the subsidy rate for those loans would be about 16 percent, based on historical performance. CBO has adopted this rate for this estimate. Assuming the appropriation of the necessary funds, CBO estimates that the subsidy cost for reauthorizing the disaster loan program through 2009 would be \$83 million in 2008 and \$326 million over the 2008-2012 period.

Disaster Mitigation Pilot Program. H.R. 3866 would authorize SBA to make \$15 million in predisaster mitigation loans in each of fiscal years 2008 and 2009. Such funds would be used to make direct loans to small businesses for disaster mitigation projects that would not otherwise be funded by the private market. According to the Administration, those loans are estimated to carry an average subsidy rate of about 16 percent. As such, CBO estimates that implementing this provision would cost \$4 million over the 2008-2012 period, subject to appropriation of the necessary funds.

Administrative Costs. As specified in FCRA, subsidy rates do not reflect the administrative costs to service loan programs. CBO estimates that the administrative costs for the disaster loans authorized in the bill would be \$92 million in 2008 and \$583 million over the 2008-2012 period.

Noncredit Programs

Participating Securities. H.R. 3866 would authorize SBA to purchase \$4.5 billion in participating securities in each of fiscal years 2008 and 2009. Under the participating securities program, SBA would provide funding to SBICs to make venture capital investments in qualified small businesses. SBICs would be required to share any profits earned on those investments with SBA.

Prior to March 2005, SBA treated the participating securities program as a credit program under FCRA, so costs of the loan guarantees were recorded on a net-present-value basis. SBA no longer treats the participating securities program as a credit program, however, and now considers the program to be an equity investment in the operation of an SBIC. Therefore, rather than calculating the net present value of the cost of the guarantees, the full cost of purchasing the participating securities would be recognized in the year it is authorized.

Based on historical demand for the program, CBO estimates that implementing this provision would cost about \$2.4 billion in 2008 and \$9 billion over the 2008-2012 period.

Other Noncredit Activities. H.R. 3866 would authorize appropriations for several SBA programs that provide technical support and training to qualified small businesses, the salaries and expenses of the SBA, and expenses related to the Small Business Investment Act. Based on information from SBA, CBO estimates that implementing those noncredit provisions of H.R. 3866 would cost \$387 million in 2008 and about \$1.9 billion over the 2008-2012 period, assuming appropriation of the specified or necessary amounts.

CBO estimates that \$529 million of that cost over the 2008-2012 period would be for programs including the Service Corps of Retired Executives program, the small business development company program, small business programs for women, the BusinessLINC program (which promotes relationships between large and small businesses), and the HUBZone program (which provides contracting preferences to small businesses located in certain areas). Technical assistance grants under the microloan program also are included in this estimate.

Salaries and expenses for SBA employees, other than those involved in the administration of direct loans and loan guarantees, make up the balance of the cost. CBO estimates that the cost for grant administration, advocacy, and entrepreneurial programs, as well as programs to support preferences for small businesses in government contracting would cost about \$1.4 billion over the 2007-2011 period. We assume that those costs will continue beyond the period in which the loans would be authorized under this bill, adjusted annually for inflation.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3866 contains no intergovernmental or private-sector mandates as defined in UMRA. By authorizing grants to SBDCs and consortia of public entities, the bill would benefit state, local, and tribal governments. Any costs that those entities incur would result from complying with conditions of federal assistance.

PREVIOUS CBO ESTIMATES

On September 10, 2007, CBO transmitted an estimate for S. 1256, the Small Business Lending Reauthorization and Improvement Act of 2007, as ordered reported by the Senate Committee on Small Business and Entrepreneurship on May 16, 2007. That bill would reauthorize SBA's general business and disaster loan programs as well as SBA's noncredit programs through 2010 and would authorize SBA to use appropriated funds in lieu of charging fees to cover the cost of 7(a) loan guarantees. CBO estimates that implementing S. 1256 would cost \$487 million in 2008 and \$3.4 billion over the 2008-2012 period. H.R. 3919 would authorize many of the same programs, but only through 2009.

On October 2, 2007, CBO transmitted an estimate for S. 1662, the Small Business Venture Capital Act of 2007, as ordered reported by the Senate Committee on Small Business and Entrepreneurship on June 26, 2007. That bill would authorize funding for SBA's debenture and participating securities programs through 2010 and would amend requirements for disbursing funds under the participating securities program. CBO estimates that implementing S. 1662 would result in discretionary outlays of \$245 million in 2008 and \$1.6 billion over the 2008-2012 period. CBO estimates that enacting S. 1662 would increase direct spending by \$50 million in 2008. H.R. 3919 would authorize those programs only through 2009; the bill would provide higher authorizations for the participating securities program than amounts authorized in S. 1662.

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