CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 25, 2000

Small Business Reauthorization Act of 2000

As ordered reported by the Senate Committee on Small Business on March 21, 2000

SUMMARY

The bill would authorize appropriations for fiscal years 2001 through 2003 for the Small Business Administration (SBA) and would make a number of changes to SBA loan programs and programs that involve preferences for government contracting.

Assuming appropriation of the necessary amounts, CBO estimates that implementing this legislation would cost about $3.7 billion over the 2001-2005 period. Of this total, about $600 million is from amounts specifically authorized in the bill for SBA programs—primarily for administrative expenses. The remaining $3.1 billion would be primarily for the subsidy costs of SBA loan programs.

These costs include $227 million over the 2001-2005 period for agencies other than SBA to carry out programs that would be reauthorized by the bill. Implementing the changes to the HUBZone program contained in the bill would also increase costs to other federal agencies, by several million dollars a year, but we cannot estimate the impact of those changes.

CBO estimates that enacting the bill also would result in an increase in direct spending of $28 million in fiscal year 2000 for the cost of modifying loan guarantees. Because the bill would affect direct spending, pay-as-you-go procedures would apply.

The legislation contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that states would incur no cost to comply with this mandate. Thus, the threshold established by the act ($55 million in 2000, adjusted annually for inflation) would not be exceeded. In general, the bill would benefit state, local, and tribal governments, and any costs to such governments would be incurred voluntarily. The bill contains no new private-sector mandates as defined in UMRA.

MAJOR PROVISIONS

Title I would establish the maximum amounts of small business loans to be made by SBA in 2001, 2002, and 2003. It also would authorize appropriations for the Service Corps of Retired Executives (SCORE), technical assistance grants to recipients of microloans, and certain activities of the Small Business Development Centers (SBDCs). Title I would authorize such sums as may be necessary for the disaster loan program and for administrative expenses necessary to carry out the Small Business Act and the Small Business Investment Act.

Title III would require the Internal Revenue Service (IRS) to convene panels, prior to publishing regulations (including interpretive rules), to analyze the potential impact of those regulations on small businesses.

Title IV would authorize the appropriation of such sums as may be necessary for the Office of Advocacy within SBA.

Title V would make a number of changes in SBA's credit programs. It would:

- establish prepayment penalties and authorize SBA to guarantee a higher percentage of certain general business loans,
- require SBA to reduce the annual fee paid by borrowers under two Small Business Investment Company (SBIC) programs if the subsidy cost of those programs would otherwise be less than zero, and
- require small business lending companies to pay the costs of examinations by SBA.

Title VI would expand the HUBZones program to allow more businesses and communities within Indian reservations or in Alaska to participate in the program.

Title VII would extend the provisions of the Federal Acquisition Streamlining Act of 1994 that provide federal contracting preferences to qualified small disadvantaged businesses, and would authorize SBA to conduct criminal background checks on borrowers or lenders.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of implementing the bill's provisions is shown in Table 1. CBO estimates that the bill would result in outlays of $3.7 billion over the 2001-2005 period; nearly all of that amount is for SBA spending that is subject to appropriation. The estimated outlays do not include additional costs for expanding the HUBZones program, which could total several million dollars a year. CBO has insufficient information on how this provision would be implemented to estimate these costs. The costs of this legislation fall within budget functions 370 (housing and commerce credit) and 450 (community and regional development).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF THE SMALL BUSINESS REAUTHORIZATION ACT OF 2000

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION						
Small Business Administration						
SBA Spending Under Current Law						
Estimated Authorization Level[a]	861	0	0	0	0	0
Estimated Outlays	865	298	70	24	0	0
Changes to SBA Spending						
Estimated Authorization Level	0	1,131	1,207	1,253	11	12
Estimated Outlays	0	736	1,096	1,202	414	74
SBA Spending Under the Bill						
Estimated Authorization Level	861	1,131	1,207	1,253	11	12
Estimated Outlays	865	1,034	1,166	1,226	414	74
Other Agencies						
Estimated Authorization Level[b]	0	48	49	51	52	53
Estimated Outlays	0	30	40	47	51	52
Total Additional Spending Under the Bill						
Estimated Authorization Level	0	1,179	1,256	1,304	63	65
Estimated Outlays	0	766	1,136	1,249	465	126
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	28	0	0	0	0	0
Estimated Outlays	28	0	0	0	0	0

a. The 2000 level is the amount appropriated for SBA for that year.

b. In addition to the amounts shown in the table, CBO expects that Title VI (HUBZones program) would impose costs on agencies other than the SBA but we cannot estimate those costs.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted by the end of fiscal year 2000 and that the necessary amounts will be appropriated by the start of each fiscal year. Outlay estimates are based on historical spending rates for existing or similar programs.

Spending Subject to Appropriation

Most of the bill's budgetary effects would come from reauthorizing existing SBA programs and would consist primarily of the subsidy costs of direct and guaranteed loans. Provisions of the bill unrelated to SBA—primarily those affecting government procurement—also would add to the cost of implementing the legislation.

Small Business Administration. The bill would reauthorize all of the programs of SBA through 2003. In addition, the bill would provide separate authority for the Office of Advocacy and for existing programs to assist businesses owned by Native Americans. Based on information from SBA and historical spending patterns for the agency, CBO estimates that these authorizations, if funded, would result in outlays of about $3.5 billion (including about $2.2 billion for loan programs) over the 2001-2005 period.

Loan Programs. The bill would authorize SBA to guarantee loans and make direct loans to businesses totaling about $23 billion in 2001, $26 billion in 2002, and $28.6 billion in 2003. It would authorize the agency to make an indefinite amount of disaster loans over the 2001-2003 period. Table 2 shows the loan levels authorized by the bill for SBA's guaranteed and direct business loans and CBO's estimate of the amounts of disaster loans, as well as the estimated subsidy cost and administrative expenses for those loans.

The Federal Credit Reform Act of 1990 requires appropriation of the subsidy costs and administrative costs for operating 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, excluding administrative costs). The bill does not provide an explicit authorization for either the subsidy or administrative costs for the guaranteed, direct, or disaster loans.

The estimated subsidy rate for the different types of business loans and loan guarantees offered by SBA ranges from zero to about 9 percent. Most are 2 percent or less and the average is 1.1 percent, based on the past performance of these loans. Based on historical data for these loan programs and incorporating program changes required by this bill, CBO estimates that the subsidy costs for the authorized levels of guaranteed and direct business loans would be $264 million in 2001, $298 million in 2002, and $326 million in 2003.

Based on recent administrative costs for SBA's loan programs, CBO estimates that the administrative costs for the business loan programs would be about $134 million in fiscal year 2001, $138 million in fiscal year 2002, and $142 million in fiscal year 2003.

TABLE 2. ESTIMATED SBA LOAN LEVELS, SUBSIDY COSTS, AND ADMINISTRATIVE COSTS

	By Fiscal Year, in Millions of Dollars				
	2001	2002	2003	2004	2005
Authorized Loan Levels					
Guaranteed and Direct Business Loans	23,110	26,130	28,650	0	0
Disaster Loans	871	885	900	0	0
Loan Subsidy Costs					
Guaranteed and Direct Business Loans					
Estimated Authorization Level	264	298	326	0	0
Estimated Outlays	170	270	303	103	6
Disaster Loans					
Estimated Authorization Level	174	177	180	0	0
Estimated Outlays	87	158	178	90	18
Loan Administration Costs					
Guaranteed and Direct Business Loans					
Estimated Authorization Level	134	138	142	0	0
Estimated Outlays	134	138	142	0	0
Disaster Loans					
Estimated Authorization Level	141	145	150	0	0
Estimated Outlays	141	145	150	0	0

Assuming that demand for SBA's disaster loans over the next three years will be at the average historical rate for the past six years, adjusted for inflation, CBO projects that SBA would make disaster loans totaling about $871 million in 2001, $885 million in 2002, and $900 million in 2003 and that administrative costs for the disaster loan program would be about $141 million in 2001, $145 million in 2002, and $150 million in 2003. The estimated subsidy rate for disaster loans is about 20 percent, based on the historical performance of these loans.

Non-Credit Programs. The bill would provide specific authorizations of appropriations for SBDCs, SCORE, technical assistance for recipients of SBA microloan, quadrennial small business summits, the women's business council, the drug-free workplace program, and various programs to benefit businesses owned by Native Americans. CBO estimates that outlays from these authorizations would total $592 million over the next five years.

Examination fees. Section 505 would require small business lending companies to pay the costs of any examination by SBA. Based on the amount SBA currently spends to examine small business lending companies, CBO estimates this provision would increase collections, which are an offset to discretionary spending, by $1 million annually over the 2001-2005 period.

Background Checks. Section 706 would authorize SBA to conduct criminal background checks on borrowers or lenders participating in SBA's loan programs using the National Crime Information Center computer system at the Federal Bureau of Investigation (FBI). The FBI charges $24 for each check. Based on information from SBA, we expect the agency would pursue about 25,000 background checks in 2001. CBO estimates implementing this section would cost $0.6 million in that year. As SBA raises the number of background checks, annual costs would rise gradually to about $3 million by 2005.

Other Programs. In addition, the bill would authorize such sums as may be necessary to cover SBA's costs of carrying out the Small Business Act and the Small Business Investment Company Act. CBO estimates that the general administrative costs to carry out these acts would be $223 million in fiscal year 2001, $231 million in fiscal year 2002, and $241 million in fiscal year 2003, assuming appropriation of the necessary amounts. (The estimate of general administrative costs excludes the program-specific administrative expenses for business and disaster loans.) Finally, the bill would authorize the appropriation of such sums as may be necessary for the Office of Advocacy within SBA. Based on information from SBA, CBO estimates that the office will spend $6 million to $7 million annually.

Price Preferences. Title VII would extend the provisions of the Federal Acquisition Streamlining Act of 1994 that provide federal contracting preferences to qualified small disadvantaged businesses. Under the price preferences provision, small disadvantaged businesses may be deemed the lowest bidder for certain federal contracts if their price is not more than 10 percent greater than the lowest bidder. Small disadvantaged businesses received federal contracts worth about $6 billion in 1999. Based on the experience of a similar program within the Department of Defense, CBO expects the total value of contracts awarded using price preferences would be about $1.2 billion each year over the 2001-2005 period, and the preference would add an average of about three percent to the cost of the contracts. CBO estimates this provision would cost about $150 million over the 2001-2005 period.

HUBZones Program. Title VI would expand the HUBZones program, which provides federal contracting set-asides and preferences to qualified small businesses located in certain economically distressed, urban and rural communities. Title VI would allow more businesses and communities within Indian reservations and Alaska to participate in the program and could cost several million dollars a year. CBO cannot estimate how much those changes may increase spending, however, because we do not know how many more communities would participate in the program or what administrative resources would be required to carry it out.

Regulatory Review Panels. Title III would require the IRS to convene panels to analyze the potential impact of regulations on small businesses prior to publication. We expect that the bill would apply to about 50 IRS regulations each year. Based on this number of regulations and the experiences of similar panels at EPA and OSHA, CBO estimates that implementing Title III would cost the IRS about $13 million in 2001 and similar amounts in subsequent years. Annual costs would rise gradually to about $16 million by 2005.

Direct Spending

Title V would modify the expected cost of the guarantees SBA has provided for existing loans. According to OMB's Circular A-11, *Preparation and Submission of Budget Estimates:* "If the modification is mandated in legislation, the legislation itself provides the budget authority to incur the subsidy cost obligation (whether explicitly stated or not)." As a result, CBO estimates that the bill would increase direct spending by a total of $28 million in the year of enactment through changes in SBIC programs and SBA's general business program.

Small Business Investment Companies. Through two SBIC programs, SBA guarantees 10-year loans made to venture capital firms. To offset the subsidy cost of those guarantees, SBA charges venture capital firms that participate in the program a fee of 1 percent of the loan amount each year, resulting in receipts of about $50 million a year. Section 503 would require SBA to reduce the 1 percent fee if the subsidy cost of those programs would otherwise be less than zero.

For fiscal year 2000, the Administration estimates that the subsidy rate is 1.8 percent for one of the SBIC programs and zero for the other. If, in the future, SBA determines the subsidy cost of either of these loan guarantees to be less than zero (that is, a "negative subsidy"), section 503 would require the agency to reduce the fees. CBO estimates that there is about a 15 percent chance that the subsidy rate for these programs could be less than zero, so enacting this provision would cost $50 million by eliminating the possibility of a negative subsidy for the guarantees that are outstanding under these programs. This cost represents the present value of fees that could be eliminated by the bill and the likelihood that the fees would have to be reduced. Such fees would otherwise be collected annually over the remaining term of the loan guarantees.

General Business Guarantees. Section 501 would establish penalties for the prepayment of guaranteed loans during the first three years that the loans are outstanding. In addition, section 501 would eliminate a provision of law that allows SBA to pay interest on guaranteed general business loans that have defaulted at a rate 1 percent less than the borrower's interest rate between the time of default and the time SBA purchases the loan. Section 508 would allow SBA to guarantee up to 85 percent of the balance of a loan if the balance is not more than $150,000. Section 508 also would simplify and reduce fees SBA charges under the general business guarantee program. CBO estimates that these provisions would result in no net change in the subsidy associated with new loans, because the increased cost from lowering the guarantee fees would be offset by the new prepayment penalties.

Borrowers of existing loans have already paid the guarantee fee but would be subject to prepayment penalties under section 501. Based on information from SBA, we anticipate that about $33 billion of loans approved since 1997 will be outstanding near the end of fiscal year 2000. We estimate that borrowers would prepay about $1.3 billion within three years of receiving their loans, and that prepayment penalties would reduce the subsidy costs of existing general business guarantees by about $22 million.

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. CBO estimates the bill would increase direct spending by $28 million in the year of enactment because it would modify the subsidy costs of existing loans and loan guarantees.

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	28	0	0	0	0	0	0	0	0	0	0
Changes in receipts	0	0	0	0	0	0	0	0	0	0	0

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The legislation contains an intergovernmental mandate as defined in UMRA because it would preempt state statute of limitations laws as they relate to certain enforcement actions brought by SBA under the Small Business Investment Act of 1958. This mandate would impose no costs on state, local, or tribal governments because it is narrow and because it would not require states to take any action.

The bill also would authorize appropriations for SBA's programs for fiscal years 2001 through 2003, some of which would directly benefit state, local, and tribal governments. For example, the bill would expand the HUBZones program to target assistance to Native American and tribally-owned small businesses. In addition, the Small Business Development Center program provides funds to state and local governments, public and private institutions of higher education, and state-chartered development corporations to establish and operate small business development centers. Any costs associated with providing matching funds to participate in SBA programs are voluntary and expected to be minimal.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

This bill would impose no new private-sector mandates as defined in UMRA.

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