



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

December 18, 2007

S. 2300

Small Business Contracting Revitalization Act of 2007

*As ordered reported by the Senate Committee on Small Business and Entrepreneurship
on November 7, 2007*

SUMMARY

S. 2300 would make several changes to the laws that encourage federal agencies to contract for goods and services with small businesses. The legislation would make changes to the practice of contract bundling (the practice of combining two or more contracts into a single agreement) and to federal policies that relate to contract set-asides for small businesses. The bill also would make changes in the Small Business Administration's (SBA's) programs that help small businesses compete for federal contracts.

Based on information from SBA and other agencies with large procurement budgets, CBO estimates that implementing S. 2300 would cost \$547 million over the 2008-2012 period, subject to appropriation of the necessary amounts. Enacting S. 2300 could increase civil and criminal penalties and thus could affect federal revenues and direct spending, but CBO estimates that such effects would not be significant in any year.

S. 2300 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 S. 2300 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit) and all other budget functions that include spending to procure goods and services.

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Administration of Governmentwide Procurement					
Estimated Authorization Level	50	75	100	110	120
Estimated Outlays	30	80	100	110	120
Procurement Center Representatives					
Estimated Authorization Level	13	13	13	13	13
Estimated Outlays	7	16	13	13	13
SBA Contracting Assistance Programs					
Authorization Level	3	3	3	0	0
Estimated Outlays	2	3	3	1	0
Protest System					
Estimated Authorization Level	2	2	2	2	2
Estimated Outlays	1	2	2	2	2
Reports					
Estimated Authorization Level	7	5	5	5	5
Estimated Outlays	4	7	6	5	5
Total					
Estimated Authorization Level	75	98	123	130	140
Estimated Outlays	44	108	124	131	140

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted early in calendar year 2008, that the necessary amounts will be appropriated in each year, and that spending will follow historical patterns for similar programs. CBO estimates that implementing S. 2300 would increase discretionary outlays by \$547 million over the 2008-2012 period.

Changes in Spending Subject to Appropriation

Administration of Governmentwide Procurement. S. 2300 would expand the regulation of contract bundling (the practice of combining two or more contracts into a large single agreement). Under the bill, agencies would have to justify the decision to award bundled contracts with an evaluation of whether the bundling is necessary. In addition, the legislation

would require specific changes to federal procurement policy including small business set-aside and mentoring programs. The legislation also would increase contract oversight responsibilities, reporting requirements for the federal procurement database, and training for federal agencies to meet goals for small business procurement.

The federal government purchases about \$400 billion worth of goods and services each year, from office supplies to parts for the space shuttle. CBO estimates that about 30,000 federal employees are responsible for administering the procurement of goods and services for the government at a cost of about \$2.5 billion annually. Based on information from SBA and agencies with the most procurement spending, as well as an analysis of SBA reports on governmentwide and small business contracts, CBO expects that agencies would incur additional discretionary costs to meet the bill's new requirements. Additional costs would be incurred to justify the need for bundled contracts, identify small business concerns able to provide desired goods and products, and expand existing mentoring and developmental programs for small businesses.

Based on current costs to administer contracts and the size and characteristics of those contracts, CBO estimates that complying with S. 2300 would increase costs by an average of about \$90 million annually—less than 4 percent of the amount CBO estimates is currently spent each year to administer the government's procurement efforts.

Procurement Center Representatives. S. 2300 would expand the use of the federal procurement center representative (PCR) and commercial marketing representative (CMR) program. The PCR program assists small businesses in obtaining federal contracts, while CMRs primarily identify, develop, and market small businesses to large contractors. Under the bill, the PCR program would operate at each major federal procurement center and in each state. The bill also would limit an individual CMR to providing services to no more than two states. Based on information from SBA, CBO estimates that those changes would cost \$62 million over the 2008-2012 period.

SBA Contracting Assistance Programs. The bill would make changes in SBA programs that provide contracting assistance to small businesses operated by targeted populations, including veterans with service-related disabilities and women, as well as small businesses operating in historically underutilized business zones. The bill would authorize \$3 million in each of fiscal years 2008 through 2010 for grants to both private and nonprofit entities to expand business-to-business relationships between large and small businesses. CBO estimates that implementing this provision would cost \$9 million over the 2008-2012 period.

Protest System. S. 2300 would establish a new system within SBA for companies to protest contract awards based on the size or status of a business receiving a federal contract. Under current law, SBA regional offices determine whether a business receiving a federal contract

meets SBA's standards for a small business. Companies may appeal those decisions to SBA's Office of Hearings and Appeals (OHA). S. 2300 would assign all size and status determinations to OHA, eliminating the role of the regional offices. Based on information from SBA, CBO estimates that the agency would need eight additional staff positions to handle the expected increase in protests. We expect that savings from the reduction in workload in the regional offices would be negligible because the portion of staff time currently spent to handle size protests would be reassigned to other program areas. Assuming appropriation of the necessary amounts, CBO estimates that the cost of salaries, benefits, support, and administration of the new protest system would be \$9 million over the 2008-2012 period.

Reports. Finally, the bill would require a number of one-time and annual reports, primarily from SBA and the Government Accountability Office (GAO), concerning contract bundling activities, the BusinessLINC program (which promotes relationships between large and small businesses), and the outcome of contract protests. GAO would be required to report on the usefulness of SBA's mentor-protégé program, the PCR program, and the accuracy of information in the federal procurement database. Based on information from SBA and GAO, CBO estimates that implementing the reporting provisions of S. 2300 would cost \$27 million over the 2008-2012 period.

Governmentwide Procurement. CBO expects that agencies would continue to encourage the use of small businesses for the procurement of goods and services and would seek to meet the goals for such contracts as set out in this legislation. CBO expects that agencies would also continue to purchase goods and services at the lowest price available and that goals for small business contracting would be met to the extent that doing so would not significantly increase the cost of procuring needed goods and services. Thus, we estimate that implementing this bill would not result in a significant change in acquisition costs.

Direct Spending and Revenues

S. 2300 would impose new penalties on companies that misrepresent their use of small businesses as subcontractors. Thus, enacting the legislation could increase the collections of civil and criminal fines for violations. Civil fines are recorded as revenues. Criminal fines are recorded as revenues, deposited in the Crime Victims Fund, and subsequently spent without further appropriations. CBO estimates that any additional collections would not be significant because of the relatively small number of cases likely to be affected.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2300 contains no intergovernmental or private-sector mandates as defined in UMRA. By authorizing grants to 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 May 31, 2007, CBO transmitted a cost estimate for H.R. 1873, the Small Business Fairness in Contracting Act, as passed by the House of Representatives on May 10, 2007. On May 7, 2007, CBO transmitted cost estimates for H.R. 1873 as ordered reported by the House Committee on Small Business on April 26, 2007, and by the House Committee on Oversight and Government Reform on May 3, 2007. All the versions of the legislation have provisions to promote and encourage federal agencies to contract for goods and services with small businesses but contain different requirements regarding contract bundling and small business procurement policy. The cost estimates reflect those differences.

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