CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 16, 2016

S. 2139
Small Contractors Improve Competition Act of 2015

As reported by the Senate Committee on Small Business and Entrepreneurship on December 2, 2015

S. 2139 would change the collateral requirements for surety bonds on federal construction projects and allow the Small Business Administration (SBA) to guarantee a larger portion of certain surety bonds. Surety bonds provide financial guarantees that contracts will be completed according to mutual, agreed terms and that the bond will cover any loss if a contract is not completed. In addition, S. 2139 would prohibit the federal government from using reverse auctions to obtain design and construction services. In a reverse auction, a buyer seeking a good or service solicits bids, multiple sellers offer bids, and the seller with the lowest bid wins the competition.

Under current law, contractors working on federal construction projects are required to insure their performance using surety bonds. Based on information from the General Service Administration (GSA), private contractors, and bond providers, CBO expects that provisions of S. 2139 that would change some collateral requirements would not affect the cost of procuring construction services. CBO also estimates that provisions of the bill that would raise the portion of certain surety bonds that the SBA can guarantee from 70 percent to 90 percent would not have a significant effect on discretionary spending because we expect the agency would increase fees to cover any additional guarantee costs.

CBO also reviewed information on the use of reverse auctions in government procurement contracts by the Army Corps of Engineers, and GSA. Those agencies have found that using this type of reverse auction in complex procurements does not consistently result in lower procurement cost than would result from other methods such as sealed bids or negotiated procurements. Those agencies generally do not use reverse auctions to obtain such services.

A memorandum from the Office of Management and Budget dated June 1, 2015, reviews the benefits of reverse auctions and builds on the guidance from the Office of Federal Procurement Policy to advise agencies and contracting officers on the use of reverse auctions. Consequently, CBO estimates that implementing S. 2139 would not result in agencies making significant changes in their typical contracting process and thus would not have a significant effect on the federal budget.

Enacting the bill could affect direct spending by agencies not funded through annual appropriations; therefore, pay-as-you-go procedures apply. CBO estimates, however, that any net increase in spending by those agencies would be negligible. Enacting S. 2139 would not affect revenues.

CBO estimates that enacting S. 2139 would not increase direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2027.

S. 2139 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

The CBO staff contact for this estimate is Matthew Pickford. This estimate was approved by Theresa A. Gullo, Assistant Director for Budget Analysis.