CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 28, 1998

H.R. 3412
Year 2000 Readiness and Small Business Programs Restructuring and Reform Act of 1998

As reported by the Senate Committee on Small Business on September 25, 1998

SUMMARY

H.R. 3412 would establish three new pilot programs for the Small Business Administration (SBA) and would make a number of changes to existing SBA loan and grant programs. Assuming appropriation of the necessary amounts, CBO estimates that this legislation would result in new discretionary spending of $99 million over the 1999-2003 period. Of this total, $66 million is from amounts specifically authorized in the bill for SBA programs—primarily for grants and administrative expenses. The remaining $33 million would be primarily for the subsidy costs of the Small Business Investment Company (SBIC) Participating Securities program and the proposed disaster mitigation pilot program.

H.R. 3412 would also modify the terms of SBA guarantees for existing general business loans. CBO estimates that provision would increase direct spending by $4 million in fiscal year 1999. The act also could affect governmental receipts, but CBO estimates that any such changes would be less than $500,000 a year. Because the act would affect direct spending and could affect receipts, pay-as-you-go procedures would apply.

H.R. 3412 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Any costs to state, local, or tribal governments resulting from enactment of the bill would be the result of complying with grant conditions.

DESCRIPTION OF THE BILL'S MAJOR PROVISIONS

Title I would establish a pilot loan program under the SBA general business program to address the year 2000 computer problems of small businesses. It would require that SBA provide annual reports on the pilot program and a detailed annual report on all pilot programs.

Title II contains a number of changes in small business programs. Provisions with expected budgetary effects are outlined below:

- Section 201 would increase the amount authorized for grants to women's business centers from $8 million a year to $12 million a year. It would also clarify certain provisions of the Small Business Innovation Research Program.

- Section 203 would increase the authorized level of the SBIC-Participating Securities program in 1999 and 2000.

- Section 205 would allow qualified community development companies (CDCs) to liquidate loans in their portfolio that SBA has purchased. This section also would eliminate a pilot program that allowed CDCs to liquidate loans and would allow the CDCs to litigate in place of SBA.

- Section 206 would authorize the appropriation of $2.5 million each fiscal year to establish an office of veterans business development and an advisory committee on veterans business affairs.

- Section 207 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 208 would establish a disaster mitigation pilot loan program and authorize a program level of $15 million for each year during the 1999-2003 period.

- Section 211 would establish a demonstration program for venture capital in distressed communities.

Other provisions in title II would not have any significant budgetary impact.

Title III would establish a pilot program to improve the environmental performance of small businesses and would also establish an advisory committee on small business environmental assistance programs. Finally, title III would authorize the appropriation of $500,000 for 1999 and $4 million for each year over the 2000-2003 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the budgetary impact of implementing H.R. 3412 is shown in Table 1. The table does not include any estimated effects for section 205 because CBO cannot determine whether that section would have any budgetary impact, or what the direction or magnitude of any such impact might be. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 450 (community and regional development).

TABLE 1. Estimated Federal Costs for the Year 2000 Readiness and Small Business Programs Restructuring and Reform Act of 1998

	By Fiscal Year, in Millions of Dollars				
	1999	2000	2001	2002	2003
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Specified Authorization Level	7	11	31	11	11
Estimated Authorization Level	9	11	5	5	4
Total Authorization Level	16	22	36	16	15
Estimated Outlays	12	20	31	20	16
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	4	0	0	0	0
Estimated Outlays	4	0	0	0	0

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that the bill will be enacted in October 1998 (the beginning of fiscal year 1999) and that the necessary amounts will be appropriated for each fiscal year. Outlay estimates are based on historical spending rates for existing or similar programs.

Spending Subject to Appropriation

Specified Authorizations. H.R. 3412 would increase the authorization for grants to women's business centers from $8 million to $12 million each year. The act would also establish an Office of Veterans Business Development, a demonstration program for venture capital in distressed communities, and a pilot program to improve the environmental performance of small businesses. Assuming appropriation of the specified amounts, CBO estimates that additional outlays for these programs would total $66 million over the 1999-2003 period.

Estimated Authorization for Loan Programs. H.R. 3412 would make numerous changes to loan programs administered by SBA. The Federal Credit Reform Act of 1990 requires appropriation of the subsidy costs and administrative costs for 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 and excluding administrative costs.

Section 203 would increase the authorized program level of the SBIC Participating Securities program from $800 million to $1 billion in 1999 and from $900 million to $1.2 billion in 2000. Based on information from the SBA and on historical data for this program, CBO estimates that the subsidy costs of guarantees for the authorized levels would increase by $11 million over the 1999-2003 period. CBO estimates that this provision would not significantly increase the administrative costs of the agency.

Section 207 would eliminate a provision of law that allows SBA, on defaulted general business loans guaranteed by the agency, to pay 1 percent less than the borrower's interest rate between the time of default and the time SBA purchases the loan. Based on information from SBA and the Office of Management and Budget (OMB), CBO estimates that this provision would increase the subsidy rate by 0.01 percent. That change would slightly increase the cost of guaranteeing each new loan. CBO estimates that H.R. 3412 would increase the cost of guaranteeing the authorized level of $14 billion in loans in fiscal year 1999 from $195 million to $196 million, subject to the availability of appropriations. This provision would also affect direct spending by increasing the costs of loans that SBA has already guaranteed (see below).

Section 208 would authorize a disaster mitigation pilot program to make direct and guaranteed loans to small businesses for preventive measures that would reduce the long-run costs of disasters. To be eligible for a pre-disaster mitigation loan, the small business must be unable to obtain loans elsewhere for mitigation purposes. This section would authorize a program level of $15 million each year over fiscal years 1999 through 2003. Based on the 1998 subsidy rate for SBA disaster loans, CBO estimates that the subsidy appropriations for these loans and guarantees would total $17 million over the 1999-2003 period. We estimate that the costs of administering the pre-disaster mitigation loan program would total less than $500,000 each year.

Section 205 would authorize qualified community development companies to liquidate loans in their portfolio that SBA has purchased, and would allow CDCs to litigate in place of SBA. CDC loans, also known as section 503 and 504 loans, provide small businesses with long-term, fixed-rate financing for the purchase of land, buildings, and equipment. H.R. 3412 would make permanent the pilot program that allowed CDCs to liquidate such loans. The pilot program has not produced enough information to date to allow CBO to make any determination about the amount the government would recover on defaulted loans if those loans are liquidated by CDCs instead of by SBA.

In addition, it is not clear how expenses associated with liquidation would be paid. The Federal Credit Reform Act stipulates that administrative expenses cannot be paid out of the subsidy for loan programs, but expenses to foreclose, maintain, or liquidate an asset can. Many of the expenses CDCs would incur would be to foreclose, maintain, or liquidate assets. It is not clear whether SBA would have the authority to reimburse CDCs for administrative expenses, including litigation costs.

Enacting section 205 could change the subsidy rate for previous cohorts of CDC loans or the administrative costs of SBA. However, CBO has no basis for estimating the direction, magnitude, or timing of any such changes. The bill would not affect the subsidy rate for future CDC loans. By law, the Administrator of SBA must adjust an annual fee on 504 loans to produce an estimated subsidy rate of zero at the time loans are guaranteed. If enacting H.R. 3412 changed the costs of future loans, that change would be reflected in fees paid by borrowers, rather than in the appropriation required to fund the authorized loan level.

H.R. 3412 also would make other technical changes to SBA's loan programs, but CBO estimates that those changes would not have any significant budgetary effect.

Table 2 summarizes estimated changes in loan levels and subsidy costs assuming appropriation action consistent with H.R. 3412. The increased discretionary spending associated with SBA's loan programs would represent about $25 million of the total cost of implementing H.R. 3412.

Reports. H.R. 3412 would require SBA and the General Accounting Office to produce numerous reports. Based on historical costs for similar reports and information from the two agencies, CBO estimates that these provisions would increase discretionary spending by less than $500,000 in each year over the 1999-2003 period.

TABLE 2. Changes in SBA Loan Levels and Subsidy Costs Under H.R. 3412[a]

	By Fiscal Year, in Millions of Dollars				
	1999	2000	2001	2002	2003
Changes in Authorized Loan Levels					
SBIC Participating Securities Loans	200	300	0	0	0
Disaster Mitigation Pilot Loans	15	15	15	15	15
Loan Subsidy Costs					
SBIC Participating Securities Loans					
Estimated Authorization Level	4	7	0	0	0
Estimated Outlays	3	6	2	0	0
Disaster Mitigation Pilot Loans					
Estimated Authorization Level	3	3	3	3	3
Estimated Outlays	2	3	3	3	3

a. Implementing H.R. 3412 also would increase SBA's costs for administering loans, but CBO estimates that the changes in administrative expenses would be less than $500,000 a year.

Direct Spending

Loan Programs. Section 207, which would increase the subsidy rate on future general business loans, would also 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)." CBO estimates that enacting this provision would increase direct spending by about $4 million in fiscal year 1999.

Gifts. Section 206 would establish an advisory committee on veterans business affairs, and section 301 would establish an advisory committee on small business environmental assistance programs. H.R. 3412 would authorize the two advisory committees to accept and use gifts and donations to assist in their work. Donations of money are recorded in the budget as governmental receipts (revenues) and the use of any such amounts under the act would be direct spending, but CBO estimates that any such donations would be less than $500,000 a year.

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 that enacting the bill would increase direct spending by $4 million in 1999. The bill could also increase governmental receipts, but any such changes would be less than $500,00 a year.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3412 contains no intergovernmental mandates as defined in UMRA. The bill would establish new programs or modify existing programs that provide grants or contracts to various organizations, including state, local, and tribal governments. Any costs to these governments from the requirements of the programs would be incurred voluntarily.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

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

PREVIOUS CBO ESTIMATE

On March 16, 1998, CBO transmitted an estimate for H.R. 3412 as ordered reported by the House Committee on Small Business on March 12, 1998. The House version of H.R. 3412 would make only technical corrections to existing law, and as a result, CBO estimated that it would not have a significant impact on the federal budget.

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