CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 16, 1999

S. 918
Military Reservists Small Business Relief Act of 1999

As ordered reported by the Senate Committee on Small Business on June 9, 1999

Implementing S. 918 would probably increase discretionary spending over the 2000-2004 period by an average of less than $500,000 a year. CBO also estimates that enacting the bill would increase direct spending by about $1 million in fiscal year 1999; therefore, pay-as-you-go procedures would apply. S. 918 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

S. 918 would authorize the Small Business Administration (SBA) to modify and expand certain loan programs. Section 2 would allow the SBA to defer principal and interest payments due on small business loans if a military reservist is called to active duty during a period of military conflict and the reservist is an essential employee of the small business. The deferral would last from the date on which the reservist is ordered to active duty until 180 days after the reservist is released. Section 2 also would allow the SBA to reduce the interest rate for loans qualifying for a deferral. In addition, S. 918 would encourage lenders and intermediaries to grant similar deferrals for loans guaranteed by the SBA. Finally, section 3 would expand the disaster loan program to include small businesses that suffer substantial economic injury as a result of an essential employee being ordered to active duty during a period of military conflict.

The Federal Credit Reform Act of 1990 requires appropriation for the subsidy costs and administrative costs of 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. Implementing sections 2 and 3 of the bill could result in additional subsidy costs for making new loans. Any such costs would be subject to appropriation of the necessary amounts. Although CBO cannot predict the number, timing, or extent of future military conflicts or the number of small businesses that would be affected, the costs are not likely to be significant in most years. We estimate that additional subsidy costs would average less than $500,000 a year.

Section 2 would also increase direct spending because it would raise the expected cost of existing loans to small businesses. 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 probably increase direct spending by about $1 million, based on information from the SBA. We estimate that the deferral provision would affect fewer than 500 small business disaster loans (out of the 70,000 outstanding), with an average loan size of $50,000, and that the deferment of principal and interest payments would increase the average subsidy costs on those loans by about 5 percentage points. The increase in subsidy costs would be recorded as an outlay in the year in which the legislation is enacted. For the purposes of this estimate, CBO assumes that S. 918 will be enacted during fiscal year 1999.

The CBO staff contacts for this estimate are Megan Carroll and Mark Hadley. This estimate was approved by Robert A. Sunshine, Deputy Assistant Director for Budget Analysis.