CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 16, 2001

S. 1196

Small Business Investment Company Amendments Act of 2001

As ordered reported by the Senate Committee on Small Business and Entrepreneurship on July 19, 2001

SUMMARY

S. 1196 would increase the maximum annual fee charged by the Small Business Administration (SBA) for guaranteeing loans under two Small Business Investment Company (SBIC) programs from 1 percent to 1.28 percent. The bill also would create new civil and criminal penalties for knowingly making false statements to the SBA regarding loan guarantees offered under the SBIC and other loan programs.

CBO estimates that implementing S. 1196 would reduce the cost of guaranteeing loans under the SBIC participating securities program by about $125 million over the 2002-2006 period, assuming appropriation of the necessary amounts. By creating new civil and criminal penalties, S. 1196 also would increase receipts and direct spending by negligible amounts each year. Therefore, pay-as-you-go procedures would apply.

S. 1196 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1196 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for the SBIC Participating Securities Program [a]						
Estimated Authorization Level [b]	26	65	75	0	0	0
Estimated Outlays	23	35	54	53	26	0
Proposed Changes						
Estimated Authorization Level	0	-58	-67	0	0	0
Estimated Outlays	0	-15	-40	-47	-23	0
Spending Under S. 1196 for the SBIC Participating Securities Program [a]						
Estimated Authorization Level	26	7	8	0	0	0
Estimated Outlays	23	20	14	6	3	0

a. Excludes administrative costs.

b. The 2001 level is the amount appropriated for that year. The 2002 and 2003 levels are estimates of the appropriations that would be necessary to support the existing authorization levels for new loan guarantees in those years.

BASIS OF ESTIMATE

CBO estimates that implementing S. 1196 would reduce the cost of guaranteeing loans under the two SBIC programs by about $125 million over the 2002-2006 period, assuming appropriations are adjusted to reflect these savings. The bill would create new civil and criminal penalties, but CBO estimates that the effect on revenues and direct spending would be insignificant.

Spending Subject to Appropriation

The Federal Credit Reform Act of 1990 requires appropriation of the subsidy 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.

Through two SBIC programs, participating securities and debentures, 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 programs a fee of up to 1 percent of the loan amount each year. Under current law, the annual fee cannot exceed the percentage necessary to reduce the subsidy cost to zero.

S. 1196 would raise the maximum annual fee that SBA can charge under the two SBIC programs for loan guarantees that are obligated after October 1, 2001. Based on information from SBA, CBO assumes that the agency will obligate all the amounts previously appropriated for these guarantees by September 30. Therefore, we estimate that this provision only would affect the loan guarantees that are authorized under current law for 2002 and 2003.

Participating Securities. For fiscal year 2002, the Administration estimates that it will charge venture capital firms in the participating securities program the full 1 percent annual fee, yielding an estimated subsidy rate of 1.87 percent. (By comparison, the estimated subsidy rate for 2001 is 1.31 percent.) Because current law authorizes SBA to guarantee $3.5 billion in new loans under the program in 2002 and $4 billion in 2003, CBO estimates that the subsidy cost of guaranteeing these new loans under current law would be $140 million over the 2002-2005 period.

S. 1196 would increase the maximum annual fee for the participating securities program from 1 percent to 1.28 percent. Although CBO estimates that it is likely that the fee increase would reduce the subsidy to zero, there is some possibility that the subsidy rate would remain above zero. Our estimate reflects that uncertainty. CBO estimates that implementing this provision would reduce the subsidy cost of these loan guarantees by a total of $125 million over the 2002-2005 period, assuming appropriations are adjusted downward to reflect such savings.

Debentures. S. 1196 would raise the maximum annual fee that the SBA can charge venture capital firms under the debentures program to 1.28 percent. However, the subsidy cost of the program is very likely to reach zero without assessing the full 1 percent annual fee allowed under current law. As a result, CBO expects that the probability of charging the higher fees authorized by the bill would be very small. Therefore, CBO estimates that implementing the bill would not have any significant impact on the debentures program.

Revenues and Direct Spending

CBO estimates that S. 1196 would increase governmental receipts (revenues) by an insignificant amount each year because the bill would create new civil and criminal penalties. Collections of criminal fines are deposited in the Crime Victims Fund and are available to be spent without further appropriation in the following year. Therefore, CBO estimates that direct spending also would rise by a negligible amount each year beginning in 2003.

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. Because S. 1196 would create new civil and criminal penalties, the bill would increase both receipts and direct spending. However, CBO estimates that these effects would not be significant.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1196 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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