



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 23, 1999

### **H.R. 1568**

### **Veterans Entrepreneurship and Small Business Development Act of 1999**

*As ordered reported by the Senate Committee on Small Business on July 15, 1999*

#### **SUMMARY**

H.R. 1568 would expand federal assistance to small businesses owned by veterans. It would establish a federally chartered corporation to coordinate assistance to small business owners who are veterans. In addition, it would establish an Office of Veterans Business Development and an advisory committee on veterans affairs within the Small Business Administration (SBA). Section 402 would authorize the SBA to modify and expand certain loan programs to assist small businesses that employ military reservists who are called to active duty. Finally, the act would direct the SBA and the General Accounting Office to prepare several reports and would provide other forms of assistance to small businesses that are owned by veterans.

Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 1568 would increase discretionary spending by about \$24 million over the 2000-2004 period. CBO also estimates that enacting the legislation would increase direct spending by about \$1 million in fiscal year 1999. Therefore, pay-as-you-go procedures would apply to this legislation. H.R. 1568 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Any costs to state, local, or tribal governments would be the result of complying with grant conditions.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

For the purposes of this estimate, CBO assumes that H.R. 1568 will be enacted during fiscal year 1999. The estimated budgetary effects of H.R. 1568 are shown in the following table. In addition to the amounts shown in the table, CBO estimates that the provisions authorizing the receipt and use of gifts and donations would have a negligible effect on direct spending and governmental receipts over the 2000-2004 period. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 450 (community and regional development).

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
<b>SPENDING SUBJECT TO APPROPRIATION</b>						
Estimated Authorization Level	0	5	6	6	4	3
Estimated Outlays	0	5	6	6	4	3
<b>DIRECT SPENDING</b>						
Estimated Budget Authority	1	0	0	0	0	0
Estimated Outlays	1	0	0	0	0	0

## **BASIS OF ESTIMATE**

### **Spending Subject to Appropriation**

H.R. 1568 would authorize the appropriation of \$12 million over the 2000-2003 period for the National Veterans Business Development Corporation. For purposes of this estimate, CBO assumes that the corporation would receive and spend the entire amount appropriated for each year. Based on information from SBA, CBO estimates that implementing the other provisions of the act would increase administrative costs by an additional \$12 million over the 2000-2004 period.

Section 402 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 appropriations 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 section 402 of the act could result in additional subsidy costs for making new loans. 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.

## **Direct Spending**

Section 402 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 402 also would allow the SBA to reduce the interest rate on loans qualifying for a deferral. The act would encourage lenders and intermediaries to grant similar deferrals for loans guaranteed by the SBA.

Section 402 would increase direct spending because it would raise the expected cost of existing loans to small businesses. CBO estimates that enacting this provision would probably increase direct spending by about \$1 million in 1999, 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.

## **Revenues**

Authorizing the advisory committee to accept and use gifts and donations would affect direct spending and governmental receipts. CBO expects that any contributions (recorded in the budget as revenues) would be spent in the same year as they were received. Therefore, we estimate that the net budgetary impact of the gift authority granted to the advisory committee would be negligible.

## **PAY-AS-YOU-GO CONSIDERATIONS**

The Balanced Budget and Emergency Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. H.R. 1568 would affect direct spending and receipts by increasing the cost of existing loans and by allowing the new advisory committee to accept donations. CBO estimates that enacting H.R. 1568 would increase direct spending by \$1 million in 1999 and by less than \$500,000 in each subsequent year and would increase governmental receipts by less than \$500,000 a year.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

H.R. 1568 contains no intergovernmental or private-sector mandates as defined in UMRA. The act would modify existing programs that require matching funds from public or private entities, including state, local, and tribal governments. Any cost to these governments from the requirements of the programs would be incurred voluntarily.

## **PREVIOUS CBO ESTIMATES**

On June 29, 1999, CBO transmitted a cost estimate for H.R. 1568 as ordered reported by the House Committee on Small Business on June 23, 1999. That version of the legislation is similar to this version, and CBO's estimates of costs are identical.

On June 16, 1999, CBO transmitted an estimate of S. 918, the Military Reservists Small Business Relief Act of 1999, as ordered reported by the Senate Committee on Small Business on June 9, 1999. That bill is identical to section 402 of H.R. 1568; CBO estimated that enacting S. 918 would increase direct spending by about \$1 million in 1999 and spending subject to appropriation by less than \$500,000 a year—the same amounts estimated for section 402 of H.R. 1568.

## **ESTIMATE PREPARED BY:**

Federal Costs: Mark Hadley and Megan Carroll  
Impact on State, Local, and Tribal Governments: Shelley Finlayson

## **ESTIMATE APPROVED BY:**

Paul N. Van de Water  
Assistant Director for Budget Analysis