



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 25, 2000

S. 1594

Community Development and Venture Capital Act of 2000

*As ordered reported by the Senate Committee on Small Business on July 26, 2000, with
a subsequent amendment provided on August 24, 2000*

SUMMARY

S. 1594 would authorize appropriations for fiscal years 2000 through 2005 for the New Markets Venture Capital (NMVC) program within the Small Business Administration (SBA). This program would provide federal loan guarantees to venture capital corporations that invest in small businesses located in low-income communities. The bill also would establish a program—the Community Development Venture Capital program—to provide training and assistance to venture capital companies that promote community development. Finally, S. 1594 would authorize appropriations for the Business LINC program, also within SBA. This program would promote relationships between large and small businesses.

CBO estimates that implementing S. 1594 would cost a total of \$104 million over the 2001-2005 period, assuming appropriation of the necessary amounts. Because S. 1594 would not affect direct spending or receipts, pay-as-you-go procedures would not apply.

S. 1594 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the cost of the mandate would not be significant. The bill contains no new private-sector mandates.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

For this estimate, CBO assumes that S. 1594 will be enacted near the start of fiscal year 2001 and that funds will be provided for its implementation each year. The estimated budgetary impact of S. 1594 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					
2000	2001	2002	2003	2004	2005

SPENDING SUBJECT TO APPROPRIATION

Spending for NMVC and Business LINC						
Under Current Law						
Budget Authority ^a	11	0	0	0	0	0
Estimated Outlays	4	5	2	b	0	0
Proposed Changes						
Estimated Authorization Level	0	35	34	18	12	12
Estimated Outlays	0	20	31	24	16	13
Spending Under S. 1594						
Estimated Authorization Level ^a	11	35	34	18	12	12
Estimated Outlays	4	25	33	24	16	13

a. The 2000 level is the amount appropriated for that year. It includes \$9 million for NMVC technical assistance and \$2 million for Business LINC assistance. In addition, Public Law 106-113 had earmarked \$6 million for the subsidy cost of NMVC loan guarantees; but Public Law 106-259 (enacted August 9, 2000) repealed that earmark.

b. Less than \$500,000.

BASIS OF ESTIMATE

S. 1594 would authorize appropriations for three programs within SBA. Based on historical spending patterns of similar programs, CBO estimates implementing the New Markets Venture Capital program would cost \$54 million, the Community Development Venture Capital program would cost \$20 million, and the Business LINC program would cost \$30 million.

New Markets Venture Capital

S. 1594 would authorize the NMVC program for six years (fiscal years 2000 through 2005), with appropriations limited to \$30 million for technical assistance grants and such sums as necessary to subsidize and administer up to \$150 million in NMVC loan guarantees. For this estimate, CBO assumes SBA would guarantee 100 percent of any loans under this program.

CBO estimates that S. 1594 would authorize the appropriation of an additional \$56 million over the 2001-2005 period for the NMVC program. This cost reflects the difference between the total amounts authorized in the bill and the \$9 million appropriated for the current year.

Specifically, S. 1594 would authorize the appropriation of up to \$30 million over the 2000-2005 period for technical assistance, which is \$21 million more than has been appropriated for fiscal year 2000. In addition, CBO estimates that it would cost about \$30 million to subsidize \$150 million in NMVC loan guarantees. Finally, experience with other SBA programs suggests that it would cost an average of about \$1 million a year to administer the program, net of any examination fees paid by borrowers.

CBO estimates that the subsidy cost of the NMVC program would be about 20 percent of the amount guaranteed. This estimate is based on trends in defaults and recoveries for similar SBA programs and on information regarding the likely terms and conditions of the guarantees. Experience with other programs suggests that NMVC borrowers would default on about 45 percent of guaranteed loans. In the event of a default, CBO expects that the agency would liquidate the NMVC investments and that recoveries would average about 50 percent of the loan balance three years after default. Based on information from the Office of Management and Budget, we assume that SBA would allow borrowers a grace period of five years during which they would not pay interest; instead, such interest would be added to the outstanding debt. Because S. 1594 would authorize SBA to guarantee up to \$150 million of loans, we estimate that this program would require the appropriation of about \$30 million for credit subsidies.

Community Development Venture Capital

S. 1594 would authorize the Community Development Venture Capital program for four years (fiscal years 2000 through 2003), with appropriations limited to \$20 million for grants and contracts to provide technical assistance. Based on the spending patterns of similar programs, CBO estimates that outlays for this program would total about \$20 million over the 2001-2005 period.

Business LINC

S. 1594 would authorize appropriations of \$6.6 million each year over the 2001-2005 period to promote relationships between large and small businesses. Based on the spending patterns of SBA's other grant and assistance programs, CBO estimates that outlays for this program would be \$30 million over the 2001-2005 period.

PAY-AS-YOU-GO CONSIDERATIONS: None.

IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Title I would preempt state laws by prohibiting them from limiting the Administration's ability to exercise its ownership rights in certain debentures issue by a new markets venture capital company. Such a preemption of state law is an intergovernmental mandate as defined by UMRA, but CBO estimates that the mandate would impose no significant costs on state, local, or tribal governments.

IMPACT ON THE PRIVATE SECTOR

S. 1594 contains no new private-sector mandates as defined by UMRA.

PREVIOUS CBO ESTIMATES

This estimate differs from previous estimates of related legislation because of a change in the amounts being spent under current law. CBO's previous estimates included \$6 million that was appropriated in 2000 for the subsidy cost of NMVC loans. The Department of Defense Appropriations Act, 2001 (Public Law 106-259, enacted on August 9, 2000) allows SBA to spend such funds on other loan programs. CBO transmitted three related estimates prior to this change in law.

On August 4, 2000, CBO transmitted a cost estimate for S. 1594, the Community Development and Venture Capital Act of 2000, as ordered reported by the Senate Committee on Small Business on July 26, 2000. That version of the bill would authorize the Business LINC program only through fiscal year 2003. CBO estimated that implementing S. 1594, as ordered reported, would cost total of \$87 million over the 2001-2005 period.

On June 26, 2000, CBO transmitted a cost estimate for H.R. 2848, the New Markets Initiative Act of 1999, as ordered reported by the House Committee on Banking and Financial Services on April 13, 2000. H.R. 2848 would authorize loan guarantees under the NMVC program of up to \$100 million and technical assistance to borrowers. CBO estimated those provisions would cost \$40 million over the 2001-2005 period.

On July 6, 2000, CBO transmitted a cost estimate for H.R. 4530, the New Markets Venture Capital Program Act of 2000, as ordered reported by the House Committee on Small Business on May 25, 2000. S. 1594 would authorize loan guarantees under the NMVC program of up to \$150 million and technical assistance to borrowers. CBO estimated that implementing H.R. 4530 would cost \$47 million over the 2001-2005 period.

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