



**CONGRESSIONAL BUDGET OFFICE  
COST ESTIMATE**

October 2, 2007

**S. 1662  
Small Business Venture Capital Act of 2007**

*As ordered reported by the Senate Committee on Small Business  
and Entrepreneurship on June 26, 2007*

**SUMMARY**

S. 1662 would authorize funding over the 2008-2010 period for the small business investment company (SBIC) programs operated by the Small Business Administration (SBA). The bill also would amend requirements for disbursing funds under commitments made through the participating securities program.

Assuming appropriation of the necessary amounts, CBO estimates that implementing S. 1662 would result in discretionary outlays of \$245 million in 2008 and \$1.6 billion over the 2008-2012 period. Further, by modifying the participating securities program, CBO estimates that enacting S. 1662 would increase direct spending by \$50 million in 2008. CBO estimates that enacting the bill would have no significant effect on revenues.

S. 1662 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

**ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of S. 1662 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				
	2008	2009	2010	2011	2012
<b>CHANGES IN SPENDING SUBJECT TO APPROPRIATION</b>					
Participating Securities					
Authorization Level	500	500	500	0	0
Estimated Outlays	225	500	500	275	0
New Markets Venture Capital Program:					
Subsidy Cost					
Estimated Authorization Level	9	9	9	0	0
Estimated Outlays	4	8	8	4	0
Operational Assistance Grants					
Authorization Level	6	7	7	0	0
Estimated Outlays	1	2	5	6	3
Administrative Costs					
Estimated Authorization Level	19	19	19	20	20
Estimated Outlays	15	18	18	19	19
Total Changes					
Estimated Authorization Level	534	535	535	20	20
Estimated Outlays	245	528	531	304	22
<b>CHANGES IN DIRECT SPENDING</b>					
Estimated Budget Authority	50	0	0	0	0
Estimated Outlays	50	0	0	0	0

## **BASIS OF ESTIMATE**

S. 1662 would authorize funding over fiscal years 2008 through 2010 for several SBA programs authorized by the Small Business Investment Act. The SBA programs that the bill would reauthorize include the participating securities program, the New Markets Venture Capital (NMVC) program, and the debenture program. Each program provides funding to small business investment companies that make venture capital available to small businesses.

The budgetary accounting for SBA's loan guarantee programs is governed by the Federal Credit Reform Act (FCRA) of 1990, which requires an appropriation of subsidy and administrative costs associated with loan guarantees and loan operations. The subsidy cost is the estimated long-term cost to the government of a loan guarantee, calculated on a net-present-value basis, excluding administrative costs. Administrative costs, recorded on a cash

basis, include activities related to making, servicing, and liquidating loans as well as overseeing the performance of lenders.

The budgetary impact of the changes S. 1662 would make to small business investment programs is measured in terms of projected subsidy costs. The bill would not specify an authorization level for either the subsidy or administrative costs, if any, that could be incurred as a result of implementing the changes proposed in the bill. CBO has estimated those amounts based on information from SBA regarding the historical demand for and costs of the agency's small business investment programs.

S. 1662 would change the terms that control disbursement of funds previously committed under the participating securities program. The bill would allow SBICs to request funds from SBA without providing a funded commitment from private investors as required under current law. This change in the conditions of existing agreements with SBICs would be treated as a loan modification; under FCRA procedures, the cost of the modification is estimated on a net-present-value basis and recorded as a change in direct spending in the year the legislation is enacted.

### **Spending Subject to Appropriation**

For this estimate, CBO assumes that the bill will be enacted in calendar year 2007 and that the necessary amounts will be appropriated for each year.

**Participating Securities.** The bill would authorize SBA to purchase up to \$500 million in participating securities in each of fiscal years 2008 through 2010. Under the participating securities program, SBA would provide funding to privately owned and operated SBICs to make venture capital investments in qualified small businesses. SBICs would be required to share any profits earned on those investments with SBA.

Prior to March 2005, SBA treated the participating securities program as a credit program under FCRA, so costs for the loan guarantees were recorded on a net-present-value basis. SBA no longer treats the participating securities program as a credit program, however, and now considers the program to be an equity investment in the operation of an SBIC. Therefore, rather than calculating the net present value of the cost of the guarantees, the full cost of the authorized loan level would be recognized in the year it is authorized.

Based on historical demand for guarantees under the program and the gap in availability over the past few years, CBO expects that demand for participating securities would be high. Assuming appropriation of the authorized amounts, CBO estimates that implementing this provision would cost \$225 million in 2008 and \$1.5 billion over the 2008-2012 period.

**New Markets Venture Capital Program.** S. 1662 would authorize amounts sufficient to cover the subsidy costs for \$150 million in debenture guarantees under the NMVC program over fiscal years 2008 through 2010. Under the program, SBA would guarantee debentures issued by companies authorized to invest in small businesses located in low-income areas. Based on information from SBA, CBO expects that the subsidy cost for the NMVC program would be about 17 percent and that demand for guarantees would fall slightly short of the authorized levels. We estimate that this provision would cost \$4 million in 2008 and \$24 million over the 2008-2012 period, assuming appropriation of the necessary amounts.

**NMVC Operational Assistance Grants.** The bill also would authorize the appropriation of funds for grants to companies participating in the NMVC program to provide assistance to small businesses that have received venture capital funding. S. 1662 would authorize the appropriation of \$20 million over the 2008-2010 period for technical assistance grants. Assuming appropriation of the authorized amount, CBO estimates that those grants would cost \$1 million in 2008 and \$17 million over the 2008-2012 period.

**Debentures.** S. 1662 would authorize SBA to guarantee debentures issued by SBICs in the following amounts: \$2.25 billion in fiscal year 2008, \$2.5 billion in fiscal year 2009, and \$2.75 billion in fiscal year 2010. The debenture program currently operates at a zero-subsidy rate; that is, the costs incurred by SBA to provide the guarantees are offset by fees charged to the borrowers. CBO estimates that reauthorizing the debenture program through 2010 would not have a significant effect on spending subject to appropriation.

**Administrative Costs.** As specified in FCRA, subsidy rates do not reflect the administrative cost to service loan guarantees. Based on the current administrative costs for SBA's loan programs and accounting for the increase in the purchase of participating securities authorized by the bill, CBO estimates that the administrative costs related to the small business investment programs authorized by S. 1662 would be \$15 million in 2008 and \$89 million over the 2008-2012 period, assuming appropriation of the necessary amounts.

## **Direct Spending**

CBO estimates that enacting section 104 would modify the terms of existing loan guarantees that would result in an additional \$250 million in SBIC loan guarantees and would increase direct spending by about \$50 million in 2008. Under credit reform procedures, the costs of such loan modifications are estimated on a net-present-value basis and recorded as direct spending in the year in which the legislation is enacted.

S. 1662 would authorize SBA to disburse certain funds previously committed to SBICs through the participating securities program under new terms and conditions. The bill would

authorize SBICs to request funds from SBA without providing funded commitments of capital from private sources at the time of the request.

Under the participating securities program in 2004, SBA issued \$4 billion in commitments to provide venture capital to SBICs. The commitments are limited to a term of five years; at the end of that period, the funds committed under the program expire, and any unused amounts cease to be available to the SBICs. During that initial period, however, an SBIC could draw against the commitment after demonstrating an appropriate business need that has been approved by SBA and commitments of private funding equal to as much as half of the amount to be used. The new terms under which funds may be requested would apply only to commitments made in 2004—the last year SBA offered guarantees under the participating securities program. CBO expects that commitments made in prior years will expire before S. 1662 is enacted.

S. 1662 would allow SBICs to request payment of committed funds without obtaining a paid commitment from private sources. Based on information from SBA, we estimate that an additional \$250 million in committed funds would be requested by SBICs and disbursed under this provision.

While SBA began treating the participating securities program as an equity investment in 2005, this budgetary treatment has not been applied retroactively to commitments already in place; therefore, credit reform rules would apply to this transaction. Because enacting this provision would change the cash flows associated with the participating securities program, the funds requested by an SBIC under new terms would be the result of a modification of the terms under which existing participating securities commitments were made.

Based on information provided by SBA, CBO estimates that the subsidy rate for the participating securities program prior to the modification is about 16 percent; we expect that this subsidy rate would change as a result of the modification. First, the loan guarantees would become riskier because SBA would be guaranteeing the full amount of the SBIC's request. However, this risk would be somewhat mitigated by a higher chance for profits to be realized because private funding would remain available to SBICs for a longer period of time. We assume the higher risk would slightly outweigh the prospect of shared profits returned to SBA and estimate that the subsidy rate for the additional disbursements would be about 20 percent, resulting in an estimated subsidy cost of \$50 million for the \$250 million guarantee commitment.

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

S. 1662 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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