



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 5, 1997

### **H.R. 2261** **Small Business Programs Reauthorization and** **Amendments Acts of 1997**

*As ordered reported by the House Committee on Small Business on July 30, 1997*

#### **SUMMARY**

H.R. 2261 would authorize appropriations for fiscal years 1998 through 2000 for the Small Business Administration (SBA) and would make a number of changes to SBA loan and small business development programs. Assuming appropriation of the necessary amounts, CBO estimates that enacting this legislation would result in new discretionary spending of about \$4.3 billion over the 1998-2002 period. Of this total, \$630 million is from amounts specifically authorized in the bill for SBA programs--primarily for administrative expenses. The remaining \$3.7 billion would be primarily for the subsidy costs of SBA loan programs.

CBO estimates that enacting H.R. 2261 also would result in an increase in direct spending of \$1 million in fiscal year 1998 and \$5 million over the 1998-2002 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply.

The legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) of 1995 and would not impose any costs on state, local, or tribal governments.

#### **DESCRIPTION OF THE BILL'S MAJOR PROVISIONS**

Title I would establish maximum levels for small business loans to be made by the SBA in 1998, 1999, and 2000. It also would authorize appropriations for the Service Corps of Retired Executives (SCORE), technical assistance grants to microloan recipients, and certain activities of the Small Business Development Centers (SBDCs). Title I also would authorize such sums as may be necessary for the disaster loan program and for administrative expenses necessary to carry out the Small Business Act and the Small Business Investment Act.

Title II would modify several SBA guaranteed loan programs and would allow the SBA to charge fees to certain borrowers. Title II also would require the SBA to conduct criminal background checks for each loan applicant. In addition, this title would convert the direct microloan program from a demonstration program to a permanent program and would extend the authorization for the microloan guarantee program through fiscal year 2000. (The microloan program provides technical assistance and loans ranging from \$100 to \$25,000 to very small businesses.)

Title III would authorize the appropriation of \$1.8 million over the 1998-2000 period for the operations of the National Women's Business Council and for grants for research in procurement or finance issues related to women's ownership of businesses. This title also would authorize the appropriation of \$8 million per year for grants to Women's Business Centers.

Title IV would convert both the Small Business Competitive Demonstration Program and the Small Business Participation in Dredging Program from pilot programs to permanent ones.

Title V would make numerous changes to the SBDC program and would authorize the appropriation of \$460 million over the 1998-2002 period for that program. This title also would authorize the appropriation of \$1.5 million in each of fiscal years 1998 and 1999 for SBDCs to provide export promotion services to small businesses.

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

The estimated budgetary impact of implementing H.R. 2261 is shown in Table 1. Assuming the appropriation of the necessary amounts, additional outlays would total \$4.3 billion over the 1998-2002 period. Nearly all of that amount is for SBA spending that is subject to appropriation. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 450 (community and regional development).

## **BASIS OF ESTIMATE**

For the purposes of this estimate, CBO assumes that H.R. 2261 will be enacted by the end of fiscal year 1997 and that both the amounts specifically authorized and those estimated to be necessary will be appropriated by the start of each fiscal year. Outlay estimates are based on historical spending rates for existing or similar programs.

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**TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 2261**

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	By Fiscal Year, in Millions of Dollars					
	1997	1998	1999	2000	2001	2002
<b>SPENDING SUBJECT TO APPROPRIATION<sup>a</sup></b>						
Spending Under Current Law						
Budget Authority <sup>b</sup>	873	0	0	0	0	0
Estimated Outlays	820	299	65	21	9	0
Proposed Changes						
Specified Authorization Level	0	154	180	199	103	103
Estimated Authorization Level	<u>0</u>	<u>1,182</u>	<u>1,224</u>	<u>1,278</u>	<u>1</u>	<u>1</u>
Total Authorization Level	0	1,336	1,404	1,477	104	104
Estimated Outlays	0	844	1,242	1,424	575	179
Spending Under The Bill						
Authorization Level <sup>b</sup>	873	1,336	1,404	1,477	104	104
Estimated Outlays	820	1,143	1,307	1,445	584	179
<b>CHANGES IN DIRECT SPENDING</b>						
Estimated Budget Authority	0	1	1	1	1	1
Estimated Outlays	0	1	1	1	1	1

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a. All but approximately \$2 million of the estimated amounts are for projected spending by the SBA.

b. The 1997 level is the amount appropriated for that year.

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### Spending Subject to Appropriation

Most of the bill's budgetary effects would come from reauthorizing existing SBA programs (primarily for the subsidy costs of direct and guaranteed loans). The estimated amounts would be subject to appropriation action.

**Loan Programs.** H.R. 2261 would permit the SBA to (1) guarantee business loans totaling about \$16 billion in 1998, \$18 billion in 1999, and \$21 billion in 2000, (2) make direct loans totaling \$60 million in each of fiscal years 1998 through 2000, and (3) make an indefinite amount of disaster loans over the 1998-2000 period. Table 2 shows the loan levels authorized or estimated to be authorized by the bill for SBA's business and disaster loans as well as the estimated subsidy cost and administrative expenses for those loans.

The Federal Credit Reform Act of 1990 requires appropriation of the subsidy costs and administrative 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). H.R. 2261 does not provide an explicit authorization for either the subsidy or administrative costs for the guaranteed, direct, or disaster loans.

Based on information from the SBA and on historical data for these loan programs, CBO estimates that the subsidy costs of guarantees for the authorized levels of business loans would be \$304 million in 1998, \$334 million in 1999, and \$375 million in 2000. We estimate that the subsidy costs of the direct business loans would be \$6 million for each of fiscal years 1998 through 2000. The estimated subsidy rates for business loans and guarantees range from 0.5 percent to 8.1 percent, but most are at 2 percent or less and the average for this estimate is 1.9 percent. The estimated subsidy rate for disaster loans is about 30 percent.

Based on recent administrative costs for the SBA's loan programs, CBO estimates that the administrative costs for the business loan programs would be about \$95 million in fiscal year 1998, \$97 million in fiscal year 1999, and \$100 million in fiscal year 2000. Included in the estimate of administrative expenses are \$1 million in fiscal year 1998 and \$500,000 in each of fiscal years 1999 and 2000 to cover SBA's costs to conduct a criminal background check for each loan applicant. The background checks would cost the SBA slightly more in fiscal year 1998 because the agency would need to purchase the computer equipment necessary to conduct the queries.

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**TABLE 2. SBA LOAN LEVELS, SUBSIDY COSTS, AND ADMINISTRATIVE COSTS**

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	By Fiscal Year, in Millions of Dollars				
	1998	1999	2000	2001	2002
<b>Authorized Loan Levels</b>					
Guaranteed and Direct Business Loans	16,200	17,950	20,650	0	0
Disaster Loans	1,543	1,543	1,543	0	0
<b>Loan Subsidy Costs</b>					
Guaranteed and Direct Business Loans					
Estimated Authorization Level	310	340	381	0	0
Estimated Outlays	199	311	352	120	7
Disaster Loans					
Estimated Authorization Level	459	459	459	0	0
Estimated Outlays	230	413	459	230	46
<b>Loan Administration Costs</b>					
Guaranteed and Direct Business Loans					
Estimated Authorization Level	95	97	100	0	0
Estimated Outlays	95	97	100	0	0
Disaster Loans					
Estimated Authorization Level	164	169	174	0	0
Estimated Outlays	164	169	174	0	0

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Assuming that demand for SBA's disaster loans over the next three years will be at the average historical rate for the past six years, CBO projects that the SBA would make disaster loans totaling about \$1.5 billion in each fiscal year over the 1998-2000 period. CBO estimates that the subsidy costs of these loans would be \$459 million per year and that the administrative costs for the disaster loan program would be \$164 million in 1998, \$169 million in 1999, and \$174 million in 2000.

**Surety Bonds.** H.R. 2261 would authorize the SBA to guarantee up to \$2 billion in surety bonds for small businesses in each of the fiscal years 1998, 1999, and 2000. Such guarantees are not considered loan guarantees under the definition in the Federal Credit Reform Act of

1990, and annual appropriations are required only to cover the net cash losses to the program within a given year. Based on information from the SBA, CBO estimates that the authorized level of activity would result in outlays of \$4 million each year over the 1998-2000 period.

**Other Programs.** H.R. 2261 would provide specific authorizations of appropriations for SBDCs, SCORE, technical assistance grants to microloan recipients, and various women's business programs. CBO estimates that these programs would result in spending by the SBA of \$627 million over the next five years.

H.R. 2261 also would reauthorize the Small Business Competitive Demonstration Program and the Small Business Participation in Dredging Program. Both programs require federal agencies to establish contracting goals for small businesses in certain industries. CBO estimates that extending the Small Business Competitive Demonstration Program would cost the 10 participating agencies and the SBA about \$1 million a year to report and compile the required data, assuming appropriation of the necessary amounts. Based on information from the Army Corps of Engineers, CBO estimates that extending the Small Business Participation in Dredging Program would cost less than \$500,000 annually over the 1998-2000 period.

In addition, the bill would authorize such sums as may be necessary to cover the SBA's costs of carrying out the Small Business Act and the Small Business Investment Company Act. CBO estimates that the general administrative costs to carry out these acts would be \$149 million in fiscal year 1998, \$154 million in fiscal year 1999, and \$158 million in fiscal year 2000, assuming appropriation of the necessary amounts. (The estimate of general administrative costs excludes the program-specific administrative expenses for business and disaster loans.)

### **Direct Spending**

The bill would authorize the SBA to spend without further authorization the Small Business Investment Company (SBIC) examination fees currently collected by the agency but not available for spending unless authorized in advance in an appropriation act. Based on information from the SBA, CBO estimates that the agency would collect and spend about \$1 million annually in examination fees.

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

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. CBO estimates that enacting the bill would increase direct spending by \$1 million a year because SBA would be able to spend SBIC examination fees without appropriation action.

## **ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS**

H.R. 2261 contains no intergovernmental mandates as defined in UMRA, and would not impose any costs on state, local, or tribal governments. The bill would authorize an increase of \$5 million in fiscal year 1999 and \$10 million annually thereafter for the Small Business Development Center Program. The program is currently authorized at \$85 million in fiscal year 1998. The program provides grants to state and local governments, public and private institutions of higher education, and state-chartered development corporations to establish and operate small business development centers.

## **ESTIMATED IMPACT ON THE PRIVATE SECTOR**

This bill would impose no new private-sector mandates as defined in UMRA.

## **PREVIOUS CBO ESTIMATE**

On August 8, 1997, CBO prepared an estimate for S. 1139, the Small Business Reauthorization Act of 1997, as ordered reported by the Senate Committee on Small Business on June 16, 1997. CBO estimated that S. 1139 would result in new discretionary spending totaling at least \$4.4 billion over the 1998-2002 period, assuming appropriation of the necessary amounts. In comparison, CBO estimates that implementing H.R. 2261 would result in new discretionary spending of about \$4.3 billion over the 1998-2002 period.

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