CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 20, 2007

H.R. 2389
Small Energy Efficient Businesses Act

As ordered reported by the House Committee on Small Business on May 23, 2007

SUMMARY

H.R. 2389 would modify several existing Small Business Administration (SBA) loan and assistance programs and create new programs to encourage small businesses to invest in technologies to improve energy efficiency. Assuming appropriation of the necessary amounts, CBO estimates that implementing the provisions of H.R. 2389 would cost $4 million in 2008 and $121 million over the 2008-2012 period. Enacting this bill would not affect direct spending or revenues.

H.R. 2389 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA) because it would preempt certain state and local laws. CBO estimates that the preemption would impose insignificant additional costs on state, local, or tribal governments, which would be well below the threshold established in UMRA ($66 million in 2007, adjusted annually for inflation). H.R. 2389 contains no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2389 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
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Renewable Fuel Capital Investment Program					
Estimated Authorization Level	23	23	23	23	24
Estimated Outlays	3	10	17	19	21
Grants to Small Business Development Centers					
Estimated Authorization Level	17	17	17	17	17
Estimated Outlays	1	6	13	15	16
Additional Spending Under H.R. 2389					
Estimated Authorization Level	40	40	40	40	41
Estimated Outlays	4	16	30	34	37

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted near the end of fiscal year 2007, that both the specified and necessary amounts will be appropriated each year, and that outlays will follow historical patterns for similar SBA programs.

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 H.R. 2389 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 business loan programs.

Renewable Fuel Capital Investment Program

The bill would create the Renewable Fuel Capital Investment Program (RFCIP), which would provide guarantees on debentures and grants to newly created renewable fuel investment companies (RFICs). The RFICs, having met eligibility criteria developed by SBA, would be authorized to issue debentures to provide capital to small businesses that are developing or marketing sources of energy that cannot be depleted. RFICs would receive grants from SBA to provide technical assistance to the small businesses receiving equity capital.

The bill would authorize SBA to charge fees as necessary to cover the cost of purchasing and guaranteeing debentures issued by participating RFICs, reducing the subsidy rate to zero. Further, the bill would authorize SBA to use appropriated funds, if made available, to reduce those fees.

The RFCIP closely resembles the Rural Business Investment Program (RBIP), a program offered jointly by the Department of Agriculture and SBA to promote economic development in rural areas. The RBIP program's full subsidy rate is about 15 percent; borrowers and lenders pay fees that offset a portion of the cost. Based on information from SBA, CBO expects that the default and recovery experience for the program would be similar to the historical experience of the RBIP program; therefore, we estimate that the RFIC program would have a subsidy rate of about 15 percent. Based on information from SBA and industry representatives, CBO expects that demand for RFIC debentures will be low because few small businesses are active in the renewable-fuel industry and there is a high risk associated with such investments. CBO estimates that SBA would approve $50 million in debenture guarantees in 2008, with small increases each year thereafter. This estimate assumes that the subsidy costs would be covered by appropriations, as authorized by the bill, rather than by fees charged to the RFICs. Assuming appropriation of the necessary amounts, CBO estimates that implementing the debenture guarantee portion of the RFIC program would cost $2 million in 2008 and $24 million over the 2008-2012 period.

Further, the bill would authorize the appropriation of $15 million per year for operational grants to be made available to RFICs to provide technical assistance to the small businesses that receive funding. Grants also would be made available to specialized small business investment companies to provide technical assistance in connection with funding provided to small businesses located in low-income areas. Assuming appropriation of the specified amount, CBO estimates that implementing this grant provision would cost $1 million in 2008 and $46 million over the 2008-2012 period.

Grants to Small Business Development Centers

The bill would authorize grants to small business development centers (SBDCs) to assist small businesses in developing, marketing, and investing in energy-saving technology. There are 63 SBDCs that would be eligible to apply for the new grants; CBO estimates that 90 percent would be awarded grants of up to $300,000 each year, the maximum grant amount authorized by the bill. Assuming appropriation of the necessary amounts, CBO estimates that implementing this provision would cost $1 million in 2008 and $51 million over the 2008-2012 period.

Energy-Saving Debentures

H. R. 2389 would expand SBA's program to guarantee debentures issued by certain small business investment companies (SBICs) to provide capital to small businesses that are developing or manufacturing products that reduce energy consumption. The energy-saving debentures would be issued under the same terms as the current SBIC debenture program—discounted, with a five- or ten-year maturity, and a grace period of five years where no interest or annual payment is due—but would be limited to investments in energy-saving technologies and products. Under current law, the SBIC debenture program charges fees to cover the program's cost, and H.R. 2389 would authorize SBA to charge fees for the new energy-saving debentures as well. For this estimate, CBO assumes that SBA would develop a schedule of fees that would fully offset the cost of guaranteeing the new debentures; therefore, implementing this program would not affect spending subject to appropriation.

7(a) and CDC Loans

Finally, H.R. 2389 would ease the financial requirements for small businesses to receive loan guarantees under the 7(a) and Community Development Center (CDC) programs. The bill would raise the maximum loan limit on CDC loan guarantees (which provide funding through CDCs for major fixed assets) from $3 million to $4 million for projects that would improve energy efficiency or reduce energy consumption. Under the 7(a) program, loans used to reduce energy consumption would be guaranteed at a higher rate (90 percent rather than 75 percent) and borrowers and lenders would be charged lower fees.

Under current law, both the 7(a) and CDC programs operate at a zero subsidy rate—SBA collects fees from borrowers and lenders that are sufficient to cover the cost of providing the loan guarantees. Based on information from SBA, CBO assumes that the agency would adjust fees for both the 7(a) and CDC programs to offset the effects H.R. 2389 would have on each program. Therefore, those provisions would have no net cost.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2389 would preempt state and local laws by prohibiting such governments from limiting SBA's ability to exercise its ownership rights in certain debentures issued by a renewable fuel capital investment company; that preemption would constitute an intergovernmental mandate as defined in UMRA. CBO estimates that the preemption would impose insignificant additional costs on state, local, or tribal governments, which would be well below the threshold established in UMRA ($66 million in 2007, adjusted annually for inflation). The bill also would benefit state, local, and tribal governments by allowing SBDCs to apply for grants from SBA for small business sustainability initiative programs. The bill contains no private-sector mandates as defined in UMRA.

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