CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 15, 2006

S. 3778
Small Business Reauthorization and Improvements Act of 2006

As ordered reported by the Senate Committee on Small Business and Entrepreneurship on August 2, 2006

SUMMARY

S. 3778 would authorize funding over the 2007-2009 period for operations of the Small Business Administration (SBA) and would make a number of amendments to SBA loan programs, programs that support entrepreneurship, and programs that support preferences for small business in government contracting.

Assuming appropriation of the necessary amounts, CBO estimates that implementing S. 3778 would cost about $5.1 billion over the 2007-2011 period. About $2.8 billion of this amount is the estimated subsidy and administrative cost of continuing SBA credit programs, and about $2.1 billion would be for SBA's noncredit programs and activities. The remaining amount, about $0.2 billion, is the estimated cost of governmentwide efforts to provide small business contracts with the federal government and amendments to an emergency loan program administered by the Department of Agriculture (USDA). By making certain expiring funds available to be spent, CBO estimates that enacting this bill would increase direct spending by $915 million over the 2007-2016 period. Enacting the bill would have no significant effect on revenues.

S. 3778 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.

MAJOR PROVISIONS

Major provisions of S. 3778 include:

- Title I would set the maximum amounts of small business loans that could be guaranteed by SBA for fiscal years 2007 through 2009, authorize appropriation of funds for the Service Corps of Retired Executives (SCORE) program, the Paul

Coverdell drug-free workplace program, the Office of Veterans Business Development, the small business development center program, and grants under the New Markets Venture Capital program and the microloan program. This title also would authorize the appropriation of such sums as may be necessary for fiscal years 2007 through 2009 for salaries and expenses of the SBA, the disaster loan program, and expenses related to the Small Business Investment Act.

- Title III would establish a new Small Business Investment Company (SBIC) program, the participating debentures program, to replace the participating securities program. Title III also would amend the terms of participation for loans made in prior years under the participating securities program, and would amend the loss-reserve requirement under the Premier Certified Lenders Program.

- Title IV would authorize five new loan and loan guarantee programs that would benefit small businesses, agricultural producers, and states adversely affected by disasters. In addition, the bill would broaden the existing disaster loan program by extending economic injury loans to nonprofits, increasing some loan limits, and changing the formula for calculating mitigation loans. The bill also would authorize grants of up to $25,000 to businesses adversely affected by the call-up of employees who are reservists.

- Titles V, VII, VIII, XVI, and XVII would authorize the appropriation of funds for various programs to support entrepreneurship including the Office of Veterans Business Development, the Women's Small Business Development Program and the Women's National Small Business Council, and the BusinessLINC program. This title also would authorize the appropriation of funds for pilot programs to distribute health insurance information to small businesses, support Native American small business development, and help small businesses comply with federal regulations.

- Titles X, XI, XII, XIII, and XIV would make changes to programs that give preference to small businesses in government contracting.

- Titles XVII and XIX would create a pilot program to make mid-sized loans through intermediaries and another pilot program that would allow certified development companies to make loans to nonprofit child care centers.

The remaining titles of the bill would have no significant effect on the budget.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 3778 is shown in Table 1. The costs of this legislation fall primarily within budget function 350 (agriculture), 450 (community and regional development) and 370 (commerce and housing credit).

TABLE 1. CHANGES IN SPENDING SUBJECT TO APPROPRIATION AND DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars				
	2007	2008	2009	2010	2011
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Changes to SBA Spending					
Estimated Authorization Level	1,304	1,354	1,391	643	666
Estimated Outlays	648	1,048	1,273	1,101	871
Changes to Federal Procurement Spending					
Estimated Authorization Level	32	32	32	30	30
Estimated Outlays	22	29	31	31	31
Changes to USDA Emergency Loans					
Estimated Authorization Level	3	3	3	3	0
Estimated Outlays	2	3	3	3	1
Total Changes to Spending Under S. 3778					
Estimated Authorization Level	1,339	1,389	1,426	676	696
Estimated Outlays	672	1,080	1,307	1,135	903
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	90	825	0	0	0
Estimated Outlays	80	750	85	0	0

NOTE: SBA = Small Business Administration; USDA = Department of Agriculture.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted early in 2007 and that the necessary amounts will be appropriated near the start of each year. Outlay estimates are based on historical spending patterns for existing or similar programs. CBO estimates that implementing S. 3778 would result in discretionary outlays of $5.1 billion over the 2007-2011 period, assuming appropriation of the necessary amounts. CBO estimates that enacting the bill also would increase direct spending by $915 million over the 2007-2016 period. Enacting the bill would have no significant effect on revenues.

Spending Subject to Appropriation

S. 3778 would authorize SBA to continue its direct loan and loan guarantee programs as well as grants to small businesses for fiscal years 2007 through 2009. Based on information from SBA and historical spending patterns for the agency's programs, CBO estimates that implementing those provisions would cost $4.9 billion (including about $2.8 billion for loan program subsidies and administrative costs) over the 2007-2011 period, assuming appropriation of the necessary amounts (see table 2). The bill also would authorize changes in programs outside of SBA; CBO estimates that those provisions would cost about $0.2 billion over the 2007-2011 period.

Almost three-quarters of the discretionary spending authorized by this bill for credit programs would be for disaster-related loan programs. In 2006, the Congress appropriated about $1.7 billion to SBA to make disaster loans following the 2005 Gulf Coast hurricanes. CBO expects that the future demand for disaster loans will be lower than that experienced following the Gulf Coast hurricanes, and instead will likely be similar to the historical demand for those loans over the 2001-2005 period. Thus, the estimated annual cost of implementing S. 3778 is less than what SBA spent in 2006.

For nondisaster programs, the bill would authorize SBA to guarantee loans and to make direct loans to businesses with a total loan value up to $32 billion in 2007, $34 billion in 2008, and $37 billion in 2009. By comparison, the authorized loan level for 2006 is about $28 billion and the agency funded direct and guaranteed loans worth about $20 billion in that year. S. 3778 also would authorize the agency to offer new types of direct loans and loan guarantees to small businesses, agricultural producers, and states that have been adversely affected by disasters. Table 3 shows the loan levels that would be authorized by the bill, the estimated subsidy and administrative costs for those loans, as well as the cost of amendments to SBA grant programs and other activities authorized by the bill.

TABLE 2. CHANGES IN SBA SPENDING SUBJECT TO APPROPRIATION UNDER S. 3778

	By Fiscal Year, in Millions of Dollars					
	2006	2007	2008	2009	2010	2011
SPENDING SUBJECT TO APPROPRIATION						
SBA Spending Under Current Law						
Budget Authority [a]	1,628	0	0	0	0	0
Estimated Outlays	929	1,114	543	119	7	0
Proposed Changes						
SBA Loan Programs						
Estimated Authorization Level	0	721	751	785	353	376
Estimated Outlays	0	440	678	757	562	403
Noncredit Programs						
Estimated Authorization Level	0	583	603	606	290	290
Estimated Outlays	0	208	370	516	539	468
Total, Changes to SBA Spending						
Estimated Authorization Level	0	1,304	1,354	1,391	643	666
Estimated Outlays	0	648	1,048	1,273	1,101	871
SBA Spending Under S. 3778						
Estimated Authorization Level	1,628	1,304	1,354	1,391	643	666
Estimated Outlays	929	1,762	1,591	1,392	1,108	871

a. The 2006 level is the amount appropriated for that year; a full year appropriation for SBA has not yet been provided.

The Federal Credit Reform Act (FCRA) of 1990 requires an appropriation of subsidy costs and administrative costs associated with loan guarantees and direct loan program operations. The subsidy cost is the estimated long-term cost to the government of a direct loan or 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 bill does not specify an explicit authorization for either the subsidy or the administrative costs for SBA's guaranteed, direct, or disaster loans; CBO estimated these amounts using historical information about the operation of those programs. We assume that administrative activities related to existing loans would continue to be authorized beyond the 2007-2009 period for which new loans would be authorized.

TABLE 3. ESTIMATED LOAN LEVELS, SUBSIDY, ADMINISTRATIVE, AND OTHER NONCREDIT COSTS UNDER S. 3778

	By Fiscal Year, in Millions of Dollars				
	2007	2008	2009	2010	2011
Authorized Loan Levels					
Disaster Loans [a]	1,578	1,648	1,708	28	0
Guaranteed and Direct Business Loans	31,817	34,417	37,017	0	0
Loan Subsidy Costs					
Disaster Loans [a]					
Estimated Authorization Level	366	386	410	3	0
Estimated Outlays	185	340	396	204	40
Guaranteed and Direct Business Loans					
Estimated Authorization Level	44	44	44	0	0
Estimated Outlays	23	42	42	20	1
Loan Administration Costs					
Disaster Loans					
Estimated Authorization Level	186	194	202	218	239
Estimated Outlays	143	179	194	210	229
Guaranteed and Direct Business Loans					
Estimated Authorization Level	128	130	132	135	137
Estimated Outlays	91	120	128	131	134
SBA Noncredit Programs					
Estimated Authorization Level	583	603	606	290	290
Estimated Outlays	208	370	516	539	468
Procurement and Contracting Preferences					
Estimated Authorization Level	32	32	32	30	30
Estimated Outlays	22	29	31	31	31

a. Includes USDA emergency producer loans.

Disaster Loan and Grant Programs. S. 3778 would authorize five new direct loan or loan guarantee programs that would benefit small businesses, agricultural producers, and states adversely affected by disasters. It also would reauthorize and modify the current disaster loan program for businesses and homeowners. Assuming appropriation of the necessary funds, CBO estimates that implementing these provisions would cost about $2.1 billion over the 2007-2011 period.

Reauthorization of and Amendments to the Disaster Loan Program. S. 3778 would reauthorize the disaster loan program through 2009. In addition, the bill would broaden the disaster loan program by making economic injury loans available to nonprofit organizations, increasing some loan limits, and changing the formula for calculating loan amounts for loans to mitigate damages from natural disasters.

For this estimate, CBO expects that demand for SBA's disaster loans would be similar to the average historical rate of demand over the 2001-2005 period—excluding the large volume of loans (in 2006) following the unusually severe 2005 Gulf Coast hurricanes. We estimate that demand for disaster loans would increase from the historical average by about 10 percent because of the provisions in the bill that broaden the scope of the existing disaster loan program. CBO estimates that SBA would make disaster loans worth $875 million a year over the 2007-2009 period. Over the 2001-2005 period, annual loan volume for the disaster loan program has ranged from about $650 million to over $1 billion.

The Administration estimates that the subsidy rate for disaster loans is about 15 percent, based on the historical performance of those loans. CBO has adopted that rate for estimating subsidy costs under the regular disaster loan program. Assuming appropriation of the necessary amounts, CBO estimates that reauthorizing this program would cost about $395 million over the 2007-2011 period for loan subsidy costs. In addition, CBO estimates that it would cost about $510 million over the 2007-2011 period to administer the disaster loan program and service the loans.

New Disaster Loan Guarantee Program. Section 401 would establish a new loan guarantee program for small businesses located in an area impacted by a disaster. Under the proposal, a small business could apply directly to a private lender for a disaster loan instead of applying to the SBA, as under current law. Loan proceeds could be used for any authorized use under SBA's 7(a) program or the existing disaster loan program as well as to acquire and develop real estate for the purpose of selling or renting it. The loan limit on individual loans would be $3 million and the federal government would guarantee up to 85 percent of the loan. In addition, the federal government would pay a fee to the lenders for each loan originated under this program and could reduce the interest rate offered by private lenders by up to 3 percent.

Due to the uncertainty of when or where a disaster might strike, it is difficult to estimate demand for this new program. The terms of this new disaster loan guarantee program would be more favorable than those of the current 7(a) program, making it attractive to 7(a) borrowers who suffer a disaster. This new program would not have borrower-lender fees, and the interest rate would likely be lower than the 7(a) program due to the interest subsidy from SBA. Based on information from SBA, CBO estimates that the subsidy rate for this new loan guarantee could range from 12 percent to 36 percent depending on the level of interest rate subsidy provided to the lenders. For this estimate, we assume that most of the demand for this private disaster loan program would come from current 7(a) borrowers who wish to refinance their current debt into this new program.

CBO expects that approximately 1 percent of the balance of outstanding 7(a) loan guarantees would reside within a declared disaster area and would refinance their loans under this new loan guarantee program each year. Depending on the location and severity of future disasters, the number of 7(a) borrowers that use the new program to refinance loans could vary significantly from year to year. Based on information from SBA, CBO estimates that the cumulative loan balance for the 7(a) program was about $55 billion at the end of 2006. CBO expects that the cumulative loan balance would continue to increase about 10 percent annually. We estimate that under this new loan program, lenders would make approximately $600 million in new loans in 2007 and $2.0 billion over the 2007-2011 period. CBO assumes that the SBA would guarantee 85 percent (the maximum guarantee level authorized) of those loans and would subsidize the interest rate at the maximum allowable level under the bill. Assuming appropriation of the necessary funds, CBO estimates that implementing this new loan guarantee program would cost about $110 million in 2007 and about $715 million over the 2007-2011 period. Also, CBO estimates that additional discretionary outlays for administrative costs would cost about $405 million over the 2007-2011 period.

New Disaster Loan Program for States. Section 452 would authorize the SBA to guarantee loans to states that have been adversely affected by a disaster. The legislation would authorize the SBA to develop regulations for this new loan program including appropriate uses of funds, loan terms, and loan processing fees. Currently, local governments may apply to the Federal Emergency Management Agency (FEMA) for loans if they have suffered a substantial loss of tax and other revenue following a disaster. Prior to the Gulf Coast hurricanes of 2005, demand for this program was very low. Following the catastrophic effects of the 2005 Gulf Coast hurricanes, the Congress authorized FEMA to provide up to $1 billion in loans to local governments.

For this estimate, CBO assumes that demand for this new loan guarantee program would occur following rare catastrophic events. Although CBO cannot predict the timing and severity of future disasters, we expect that this program would have a negligible cost over the next five years.

Catastrophe Loan Program. Under this bill, if a major disaster causes a significant amount of damage, the President could deem the event to be a catastrophe. If that designation were invoked, the SBA would be able to offer economic injury loans to small businesses nationwide that were adversely impacted by the catastrophe. The terms of this loan program would be identical to the terms of the economic injury loan program under current law. CBO cannot estimate the additional cost of this new loan program because CBO cannot predict the timing and severity of future disasters, nor whether the President might declare them to be catastrophic disasters. Over the next five years, however, we expect that program would have a negligible cost.

Energy Emergency Loan Program to Nonfarm Businesses. Section 472 would authorize the SBA to provide loans up to $1.5 million to small businesses that have suffered substantial economic injury as the result of a significant increase in the price of heating fuel since October 2004. Small businesses could use loan proceeds to convert heating systems from heating fuel to renewable or alternative energy sources.

The average size of an economic injury loan in the existing disaster loan program over the 2003-2005 period was about $75,000. The SBA has distributed an average of 1,300 economic injury loans over the 2003-2005 period. CBO estimates that demand for the energy emergency loan program would increase the number of economic injury loans by 40 percent. In addition, CBO assumes that loans made to cover operating costs associated with higher energy costs would be more risky than economic injury loans made under the regular disaster loan program. Therefore, CBO expects that subsidy costs associated with this program would be higher. The existing disaster loan program has a subsidy rate of 15 percent. Based on information from SBA, CBO estimates that such loans would have a subsidy rate of 20 percent. CBO estimates that implementing this loan program would cost $45 million in subsidy costs over the 2007-2011 period and about $40 million over the same period to service and administer those new loans.

Agricultural Producer Emergency Loans. Section 473 would amend a credit program administered by the Farm Service Agency of the USDA. The bill would expand eligibility for the emergency loan program to allow loans to producers with losses resulting from increased energy costs. The provisions expanding loan eligibility would expire four years after enactment. CBO estimates the proposed legislation would increase the volume of loans under the USDA program by about 40 percent and cost about $12 million over the 2007-2011 period, assuming appropriation of the necessary amounts.

Grants to Small Businesses. Section 453 would authorize SBA to provide up to $25,000 to small businesses with 10 or fewer employees that are adversely affected by the call-up of employees who are military reservists. The SBA currently provides economic injury loans to businesses with military reservists on the payroll. Over the 2002-2006 period, the SBA approved an average of about 50 such loans a year. CBO expects that demand for this grant program would also be low. For this estimate, CBO assumes that approximately 50 small businesses a year would receive grants under this new program. Assuming appropriation of the necessary funds, CBO estimates that implementing this provision would cost about $1 million a year.

Development and Implementation of Major Disaster Response Plan. Section 457 would authorize the SBA to amend and update its disaster response plan to include major and catastrophic disasters. Based on information from SBA, CBO estimates that implementing this provision would cost $1 million in 2007.

Guaranteed and Direct Business Loan Programs. S. 3778 would authorize direct loans and loan guarantees under SBA's business loan programs known as the 7(a), microloan, certified development company, and New Markets Venture Capital (NMVC) programs.

- Under the 7(a) program, SBA provides limited guarantees on loans made by certain lending institutions to small businesses.

- Under the certified development company program (also known as section 504 loans), SBA provides guarantees on debentures issued by certified development companies to provide funding to small businesses for major fixed assets such as land, structures, machinery, and equipment.

- The microloan program provides direct loans to nonprofit lenders which then offer loans to small businesses just starting up, whose capital needs are too small to qualify for the 7(a) program.

- The NMVC program provides guarantees on debentures issued by companies authorized by SBA to invest in small businesses located in low income areas.

The estimated subsidy rates for the different types of business loans and loan guarantees offered by SBA currently range from zero for 7(a) and section 504 programs to about 17 percent for the NMVC program. Incorporating program amendments in the bill and using historical demand and default rates for those loan programs, CBO estimates that the subsidy costs for the authorized levels of guaranteed and direct business loans would be $23 million in 2007 and about $128 million over the 2007-2011 period.

As specified in FCRA, subsidy rates do not reflect the administrative costs to service loan programs. CBO estimates that the administrative costs for the business loan programs authorized in the bill would be $91 million in fiscal year 2007 and $604 million over the 2007-2011 period, adjusted annually for anticipated inflation.

SBIC Participating Debenture Program. Through two programs—participating securities and debentures—SBA has provided funding to privately owned companies that provide venture capital to small businesses, known as small business investment companies (SBICs). SBICs are licensed by SBA and use a combination of financing from SBA and the private sector to provide capital to qualified small businesses.

Section 301 would establish a new SBIC program[1]—the participating debentures program—to replace the participating securities program, which ceased providing financing to SBICs in 2004. Under the new program, SBICs would issue participating debentures to SBA representing a pledge of interest payments and a balloon payment of principal at the end of the 10-year term of the debenture. Unlike the existing participating securities program, an SBIC would be considered to be in default under the new program if it failed to make required payments of principal and interest on participating debentures. The bill would authorize SBA to impose various fees on borrowers to reduce the program's subsidy cost to zero.

The participating debentures program would include a profit component similar to that of the participating securities program. Before an SBIC would be able to make profit distributions, it would be required to fully repay all principal and interest due on its participating debentures. After full repayment of the participating debentures, SBICs would be required to use gross receipts received to make profit distributions to both SBA and private investors.

CBO recognizes the risk associated with these investments and assumes that profit distributions received would be similar to returns on a federally owned investment portfolio. In estimating such returns on risky investments, CBO's practice is to adjust the rate of return to account for that risk. CBO used the Treasury interest rate (the standard proxy for the return on a risk-free investment) to estimate the cash flow from profits that would be available for distribution.

Before incorporating fees, CBO estimates that the subsidy rate for loans under this program would be between 15 percent and 20 percent. That means, for example, if SBA were to make $100 million in participating debenture loans, it would need to collect fees over the loan term with a total net present value of between $15 million and $20 million to fully offset the estimated cost of loans under the program. The estimated subsidy rate results from costs to SBA for net losses of principal and interest due to defaults. The estimate incorporates a 40 percent rate of default and a 35 percent rate of recoveries on those defaults as well as a risk-adjusted profit component. Those assumptions are based on SBA's experience with the

1. Congressional Budget Office, letter to the Honorable Judd Gregg (October 17, 2005).

participating securities program, which is similar to the new participating debentures program.

Historically, SBA has charged fees to SBICs at various points in the financing process: one-time fees are levied at the time SBA makes a funding commitment to an SBIC and again when the SBIC draws down committed funds; an annual fee is charged on outstanding loan balances as well. S. 3778 would authorize SBA to charge guarantee fees to institutions that provide financing to SBA for the program. CBO expects that SBA will develop a fee schedule that will meet the bill's requirement that the participating debenture program operate at a zero subsidy rate. Accordingly, CBO estimates that implementing the participating debenture program would have no net cost.

Small Business Intermediary Lending Pilot Program. Section 1803 would authorize a three-year program to provide up to $20 million in direct loans ranging in size from $35,000 to $200,000 to nonprofit lenders over the 2007-2009 period. The Small Business Intermediary Lending Pilot Program would be established to make direct loans to nonprofit intermediaries which would, in turn, make loans to eligible small businesses. The program, modeled after the microloan program, would feature a 20-year loan term, an interest rate of 1 percent, and a two-year grace period. Based on information from SBA, CBO estimates that the subsidy rate for the program would be around 37 percent, largely due to the difference between the rate that SBA would borrow funds and the rate SBA would charge the borrowers. We estimate that the subsidy cost for the authorized loan amounts would be about $7 million over the 2007-2011 period.

SBA’s Noncredit Programs. S. 3778 would authorize appropriations for several SBA programs that provide technical support and training to qualified small businesses, the salaries and expenses of the SBA and the disaster loan program, as well as expenses related to the Small Business Investment Act. Based on information from SBA, implementing these noncredit provisions of S. 3778 would cost $208 million in 2007 and about $2.1 billion over the 2007-2011 period, assuming appropriation of the necessary amounts.

CBO estimates that $775 million of that cost over the 2007-2011 period would be for programs including the SCORE program, the small business development company program, the Paul Coverdell drug-free workplace program, women's small business programs as well as veterans and Native American business development programs. Technical assistance grants under the microloan program and the New Markets Venture Capital program would also be included in this cost.

The bill also would create several new pilot programs including initiatives to provide health insurance information to small businesses, help small businesses comply with federal regulations, and promote entrepreneurship in minority communities. CBO estimates costs for those programs would total $87 million over the 2007-2011 period.

Salaries and expenses for SBA employees, other than those involved in the administration of direct loans and loan guarantees, make up the balance of the cost. CBO estimates the cost for grant administration, advocacy, and entrepreneurial programs—as well as programs to support preferences for small businesses in government contracting—would be about $1.2 billion over the 2007-2011 period. We assume that these costs will continue beyond the period in which loans would be authorized under this bill, adjusted annually for inflation.

Procurement and Contracting Preferences for Small Businesses. S. 3778 would make changes to a number of programs designed to increase the participation of small businesses in government procurement and contracting activities. Assuming appropriation of the necessary amounts, CBO estimates these provisions would cost about $22 million in 2007 and $144 million over the 2007-2011 period.

Specifically, section 1002 would require additional staff to be placed in each major federal procurement center and in certain states to help small businesses obtain federal contracts. This provision would cost $9 million in 2007 and $60 million over the 2007-2011 period. Section 1201 would authorize appropriations for the HUBZone program which provides preferences in federal government contracts for small businesses operating in economically distressed communities. The bill specifically authorizes the appropriation of $10 million annually for this program. And finally, the bill would require SBA and the Office of Management and Budget to expand administrative oversight and reporting requirements related to contract bundling, the practice of combining two or more contracts into a single agreement. CBO estimates these new oversight and reporting requirements would cost about $6 million annually over the 2007-2011 period.

Direct Spending

Section 302 of the bill would require SBA to disburse certain funds committed to SBICs under the participating securities program under new terms and conditions. Under this provision, SBICs would have 60 days prior to the expiration date of the commitment to request the funds to be paid out by SBA. This new authority to request funds would apply to commitments made by SBA in 2002, 2003, and 2004; therefore, disbursements would occur through fiscal year 2009.

Through the participating securities program, SBA provided 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 from those investments with SBA.

Under the program, SBA issued a commitment to provide federal funds to an SBIC after analyzing the fiscal stability of the SBIC, including its ability to repay any funds received from SBA. The commitments were limited to a term of five years. During that time, an SBIC, after demonstrating an appropriate business need approved by SBA, could draw against the commitment, using the funds to invest in small business ventures or for operating liquidity. At the end of the five-year period, the funding commitments under this program expire and any unused amounts cease to be available to the SBICs. Section 302 would allow SBICs, in the 60-day period before the commitment would expire, to request payment of all committed funds without demonstrating a business need. Based on information from SBA, we estimate that about $1 billion in committed funds would be available to SBICs under this provision; we expect about 90 percent of the funds available would be requested by SBICs.

Prior to March 2005, the Administration 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. The Administration 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. Because S. 3778 would authorize disbursement of committed-but-undrawn funds after the participating securities program was determined to be an equity investment rather than a loan guarantee, the full amount of the funds drawn (rather than the present value) would be charged to the program as direct spending on a cash basis. Based on information from SBA, CBO estimates the cost of this measure would be $80 million in 2007 and $915 million over the 2007-2011 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 3778 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Costs: Susan Willie, Julie Middleton, Matthew Pickford, and Greg Hitz
Impact on State, Local, and Tribal Governments: Sarah Puro
Impact on the Private Sector: Craig Cammarata

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis