CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 26, 2000

H.R. 2848
New Markets Initiative Act of 1999

As ordered reported by the House Committee on Banking and Financial Services on April 13, 2000

SUMMARY

H.R. 2848 would provide credit assistance and tax credits in exchange for private investments in certain communities. The bill would authorize appropriations for two federal loan guarantee programs: the America's Private Investment Companies (APIC) program within the Department of Housing and Urban Development (HUD) and a New Markets Venture Capital (NMVC) program within the Small Business Administration (SBA). In both cases, the federal government would guarantee loans made to venture-capital corporations that agree to operate in low-income or moderate-income communities. The NMVC investments would be targeted to small businesses and start-up companies. Other provisions would modify SBA's general business program by reducing fees for certain loan guarantees and increasing the limit on the portion of a loan that can be guaranteed by the government. Finally, the bill would establish a new tax credit for taxpayers who invest in qualified community development entities.

Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 2848 would cost $1.4 billion over the 2000-2005 period, including revenue losses from the new tax credits. The Joint Committee on Taxation (JCT) estimates that the revenue loss associated with this legislation would be $1,061 million over the 2000-2005 period and $1,781 million over the 2000-2010 period. CBO estimates that costs to be paid from appropriated funds would total $338 million from 2000 through 2005. We also estimate that provisions modifying the terms of existing loans would increase direct spending by $45 million in 2000. Because H.R. 2848 would affect direct spending and receipts, pay-as-you-go procedures would apply.

H.R. 2848 contains intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the cost of the mandates would not be significant. The legislation does not contain any new private-sector mandates.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2848 is shown in the following table. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 450 (community development).

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Authorization Level	17	86	85	78	79	43
Estimated Outlays	1	42	68	75	78	74
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	45	0	0	0	0	0
Estimated Outlays	45	0	0	0	0	0
CHANGES IN REVENUES						
Estimated Revenues	-5	-30	-119	-234	-322	-351

BASIS OF ESTIMATE

For this estimate, CBO assumes H.R. 2848 will be enacted in fiscal year 2000 and that the amounts authorized will be appropriated for each year. CBO expects outlays to follow trends for similar programs.

The majority of the discretionary costs associated with this bill would result from implementing the APIC and NMVC programs. For each year over the 2000-2004 period, the bill would authorize the appropriation of $36 million to cover the subsidy costs of the APIC program and $1 million annually for related administrative expenses. The NMVC program would be authorized for six years (fiscal years 2000 through 2005), with appropriations limited to $30 million for technical assistance and such sums as necessary to subsidize and administer up to $100 million in NMVC loan guarantees. H.R. 2848 also would increase the cost of guaranteeing new business loans by an average of $35 million a year, assuming the program is extended beyond 2000. The estimated increase in direct spending reflects the cost of modifying the fees paid on outstanding general business loan guarantees made by SBA. Finally, JCT estimates that the new tax credit for qualified community development

entities would reduce revenues by $1,061 million over the 2000-2005 period and $1,781 million over the 2000-2010 period.

Spending Subject to Appropriation

The majority of the discretionary costs associated with H.R. 2848 would be for credit subsidies. 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. In fiscal year 2000, the Congress appropriated a total of $35 million for subsidy and other costs related to the proposed APIC and NMVC programs.

America's Private Investment Companies. CBO estimates that H.R. 2848 would authorize an additional $17 million for APIC activities in fiscal year 2000 and $38 million a year over the 2001-2004 period. (The current appropriation for 2000 is $20 million.) This annual sum includes the $36 million specified in the bill for subsidy costs and an estimated $2 million for administrative expenses. While the bill would authorize the appropriation of $1 million annually over the 2000-2004 period for administrative costs, CBO estimates this amount would not be sufficient to administer these loan guarantees after fiscal year 2000. Based on the operation of similar SBA programs, we estimate that about $2 million annually would be needed to administer the APIC loan guarantees over the 10-year term of the guarantees.

New Markets Venture Capital program. CBO estimates that H.R. 2848 would authorize the appropriation of an additional $40 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 $15 million appropriated for the current year. Specifically, H.R. 2848 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. Likewise, CBO estimates that it would cost about $20 million to subsidize $100 million in NMVC loan guarantees, which is $14 million more than was appropriated for NMVC subsidies in fiscal year 2000. 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. We based this estimate on 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. Information from the Office of Management and Budget (OMB) suggests 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 H.R. 2848 would authorize SBA to guarantee up to $100 million of loans, we estimate that this program would require the appropriation of about $20 million for credit subsidies.

SBA's general business loan guarantee program. CBO estimates that provisions modifying certain aspects of SBA's existing general business program would increase the subsidy rate for those guaranteed loans by between 0.25 percent and 0.5 percent. Under H.R. 2848, certain borrowers would pay a smaller up-front fee for guaranteed loans (reduced from 3 percent to 2 percent); some would pay lower annual fees on guaranteed loans (reduced from 0.5 percent to 0.3 percent); and some would be eligible to have the federal government guarantee a higher portion of the loan (up to 80 percent from the current limit of 75 percent).

Assuming that the general business program is extended beyond 2000 at the $10 billion loan level specified in the fiscal year 2000 appropriation act, CBO estimates that those modifications would require the appropriation of an additional $35 million a year. The modifications also would affect the subsidy cost of any loans guaranteed in the months remaining in fiscal year 2000 after enactment of the bill, but we assume that any increase in the subsidy cost of new commitments in fiscal year 2000 would lead to a reduction in the volume of loan obligations rather than additional appropriations.

Direct Spending

In addition to its effects on future discretionary spending, CBO estimates that reducing the annual fee on loans guaranteed under SBA's general business program would increase direct spending by a total of $45 million in 2000. H.R. 2848 would reduce the annual fee on guaranteed loans from 0.5 percent to 0.3 percent of the outstanding balance on loans that were originally for $150,000 or less. This change would modify the expected cost of the guarantees SBA has provided for existing loans under the general business program. According to OMB's Circular A-11, *Preparation and Submission of Budget Estimates*: "If the modification is mandated in legislation, the legislation itself provides the budget authority to incur the subsidy cost obligation (whether explicitly stated or not)." CBO estimates that this provision would increase the subsidy rate by an average of about 1 percent on $4.5 billion of outstanding loans at the end of 2000.

Revenues

H.R. 2848 would establish a new tax credit for up to 6 percent of the amount taxpayers invest in a qualified community development entity. The Joint Committee on Taxation expects that these provisions would result in an increase in tax-exempt financing and a subsequent loss of federal revenue. JCT estimates that the revenue loss would be $1,061 million over the 2000-2005 period and $1,781 million over the 2000-2010 period.

This bill also would provide for civil penalties against APICs that fail to comply with regulations that would be established under H.R. 2848. Payments of these civil penalties would be recorded as governmental receipts to the Treasury. CBO expects that any increase in penalty collections as a result of this provision would not be significant.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	45	0	0	0	0	0	0	0	0	0	0
Changes in receipts	-5	-30	-119	-234	-322	-351	-331	-240	-122	-31	4

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Title I would preempt state laws by prohibiting states from limiting SBA's ability to exercise its ownership rights in certain debentures issued by a New Markets Venture Capital company. Title III would preempt state laws with regard to the seniority of debt issued by APICs. Such preemptions of state law are intergovernmental mandates as defined in UMRA, but CBO estimates that these mandates would impose no significant costs on state, local, or tribal governments.

Title III also provides that state and local governments may choose to assume responsibility for environmental reviews needed for certain projects and activities financed by an APIC. Any costs to carry out such environmental reviews would be incurred voluntarily.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 2848 contains no new private-sector mandates as defined in UMRA.

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