

Calendar No. 353

115TH CONGRESS }
2d Session }

SENATE

{ REPORT
{ 115-272

SMALL BUSINESS INVESTMENT OPPORTUNITY ACT OF 2018

JUNE 7, 2018.—Ordered to be printed

Mr. RISCH, from the Committee on Small Business and
Entrepreneurship, submitted the following

R E P O R T

[To accompany S. 2527]

[Including cost estimate of the Congressional Budget Office]

The Committee on Small Business and Entrepreneurship, having considered the bill (S. 2527) to amend the Small Business Investment Act of 1958 to increase the amount of leverage made available to small business investment companies, having considered the same, reports favorably thereon without amendment, and recommends that the bill do pass.

I. INTRODUCTION

The Small Business Investment Opportunity Act of 2018 (S. 2527) was introduced by Senator Benjamin L. Cardin, the Committee's Ranking Member, for himself, Senator James E. Risch, the Committee's Chairman, and Senator John Kennedy on March 8, 2018.

This bill amends the Small Business Investment Act of 1958 to increase the Individual Leverage Limit for individual funds participating in the Small Business Investment Company (SBIC) program from \$150,000,000 to \$175,000,000.

The bill was approved unanimously by a roll call vote as part of a manager's package.

II. HISTORY (PURPOSE & NEED FOR LEGISLATION)

The SBIC program was authorized in the 85th Congress by the Small Business Investment Act of 1958 and is an integral part of the Small Business Administration's (SBA's) programs that provide

a broad spectrum of access to capital for small businesses across the United States. SBICs are privately owned and managed investment funds, licensed and regulated by SBA, that use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses. The program operates at no expense to taxpayers. Instead, the cost of the program is covered by fees paid by SBICs and their portfolio companies.

Since the program started in 1958, the SBIC program has deployed more than \$67 billion of capital, made more than 166,000 investments in American small businesses, and licensed more than 2,100 investment funds.

In the 111th Congress, the American Recovery and Reinvestment Act of 2009¹ simplified and raised the maximum amount of leverage for an individual SBIC to 300 percent of its private capital, or \$150,000,000, whichever is less. The maximum amount of leverage for licensees with two or more licenses was raised to \$225,000,000.

In the 114th Congress, Senator Risch and Ranking Member Cardin introduced a bill (S. 552), with Chairman David Vitter and Senators Jeanne Shaheen and Kelly Ayotte as cosponsors, to increase the maximum amount of leverage for SBICs with more than one fund from \$225,000,000 to \$350,000,000. The bill was enacted as part of the Consolidated Appropriations Act of 2016.²

However, the leverage limit for SBICs having just one fund was not increased. Consequently, the amount for an individual fund has been fixed at \$150,000,000 since 2009. In the interim, inflation has diminished the value of the \$150,000,000 maximum. Today, adjusted for inflation, the current cap for a single SBIC of \$150 million should be nearly \$170 million. The Committee strongly recommends the individual fund limit increase apply to any existing qualified fund that has commenced its investment period two years prior to the date the bill becomes law.

In the 115th Congress, a companion bill, the Small Business Investment Opportunity Act of 2017 (H.R. 2333), was marked up and passed by the House Small Business Committee on July 12, 2017 and passed by the full House on July 24, 2017.

Like the House bill, the Cardin-Risch Small Business Investment Opportunity Act of 2018 ensures the SBIC program is able to continue to deploy needed capital through the availability of venture and private equity capital in a manner that allows the Individual Leverage Limit to keep pace with inflation and aligns it more closely with the 2015 increase in the multiple licensee limit.

III. DESCRIPTION OF BILL

This bill will expand the ability of SBA and its private-sector partners to deploy more capital to innovative, fast-growing small businesses through the SBIC program. The bill increases the Individual Leverage Limit for an individual SBIC from \$150,000,000 to \$175,000,000.

¹ P.L. 111-15.

² P.L. 114-113.

IV. COMMITTEE VOTE

In compliance with rule XXVI (7)(b) of the Standing Rules of the Senate, the following vote was recorded on March 14, 2018.

A motion to adopt the Small Business Investment Opportunity Act of 2018, a bill to amend the Small Business Investment Act of 1958 to increase the amount of leverage made available to small business investment companies, was approved unanimously by a roll call vote as part of a manager's package. Senators Risch, Rubio, Paul, Scott, Ernst, Inhofe, Young, Enzi, Rounds, Kennedy, Cardin, Cantwell, Shaheen, Heitkamp, Markey, Booker, Coons, Hirono, and Duckworth voted for the bill.

V. COST ESTIMATE

In compliance with rule XXVI(11)(a)(1) of the Standing Rules of the Senate, the Committee estimates the cost of the legislation will be equal to the amounts discussed in the following letter from the Congressional Budget Office:

APRIL 19, 2018.

Hon. JAMES E. RISCH,
*Chairman, Committee on Small Business and Entrepreneurship,
U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 2527, the Small Business Investment Opportunity Act of 2018.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Stephen Rabent.

Sincerely,

KEITH HALL,
Director.

Enclosure.

Small Business Investment Opportunity Act of 2018

Under current law, the Small Business Administration (SBA) operates a program that provides loan guarantees to Small Business Investment Companies (SBICs) that make investments in qualifying small businesses. The amount of debt the SBA is authorized to guarantee for any SBIC is capped at \$150 million. SBICs are required to pay various fees that are sufficient to offset the program's estimated subsidy cost, that is, the estimated long-term cost to the government of a loan guarantee, calculated on a net-present-value basis. S. 2527 would raise the amount of debt that the SBA can guarantee for a SBIC to \$175 million.

Using information from the SBA, CBO estimates that implementing the bill would cost \$3 million over the 2019–2023 period for the agency to update the program's regulations and subsidy-cost model in 2019 and for additional analysis and oversight of SBIC portfolios over that period. Most of those costs would result from administrative activities and any spending would be subject to the availability of appropriated funds. Using information from the SBA, CBO estimates that increasing the cap on the amount of debt that the SBA can guarantee for SBICs would increase the volume and gross cost of loan guarantees that the SBA could make; however, CBO estimates that the estimated net subsidy cost to the gov-

ernment would not be affected because the SBA would raise fees to cover any such costs.

Enacting S. 2527 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

CBO estimates that enacting S. 2527 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2029.

S. 2527 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

On July 21, 2017, CBO transmitted a cost estimate for H.R. 2333, the Small Business Investment Opportunity Act of 2017, as reported by the House Committee on Small Business on July 12, 2017. The two pieces of legislation are similar and CBO's estimates of their budgetary effects are the same.

The CBO staff contact for this estimate is Stephen Rabent. The estimate was reviewed by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.

VI. EVALUATION OF REGULATORY IMPACT

In compliance with rule XXVI(11)(b) of the Standing Rules of the Senate, it is the opinion of the Committee that no significant additional regulatory impact will be incurred in carrying out the provisions of this legislation.

VII. SECTION-BY-SECTION ANALYSIS

Section 1: Short title

This section provides the short title for the Act, the "Small Business Investment Opportunity Act of 2018".

Section 2: Individual SBIC Leverage Limit increase

This section amends Section 303(b)(2)(A)(iii) of the Small Business Investment Act of 1958, 15 U.S.C. 682(b)(2)(A)(ii), by increasing the Individual Leverage Limit from \$150,000,000 to \$175,000,000. The Committee strongly recommends the individual fund limit increase apply to any existing qualified fund that has commenced its investment period two years prior to the date the bill becomes law.