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SENATE

{ REPORT
115-449

SPURRING BUSINESS IN COMMUNITIES ACT OF 2017

DECEMBER 20, 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. 1995]

[Including cost estimate of the Congressional Budget Office]

The Committee on Small Business and Entrepreneurship, to which was referred the bill (S. 1995) to amend the Small Business Investment Act of 1958 to improve the number of small business investment companies in underlicensed States, and for other purposes, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

I. INTRODUCTION

S. 1995 was introduced by Senator Marco Rubio, for himself, on October 24, 2017. The bill's cosponsors include Senator Tammy Baldwin and Senator John Kennedy.

This bill requires the Small Business Administration (SBA) Administrator to give first priority to Small Business Investment Company (SBIC) program applicants located in underlicensed and under-financed states, expands a provision in the Small Business Investment Act of 1958 providing certain exemptions from full private capital requirements to include applicants from underlicensed states, and directs the Administrator to include additional information in the SBA's annual report to Congress on small business investment activities.

During the markup of the bill, 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 to bridge the gap between entrepreneurs' need for capital and traditional financing sources. The SBIC program participants are made up of private equity funds that use their own capital in addition to leverage gained through SBA guaranteed loans to invest in small businesses. In fiscal year 2017, the SBA committed to guarantee \$1.96 billion in SBIC small business investments. SBICs invested another \$3.77 billion from full private capital for a total of \$5.73 billion in financing for 1,077 small businesses.

While the investments of Small Business Investment Companies (SBICs) are broadly distributed, the geographic locations of the investment firms receiving SBA backing are not: 72 percent of all SBICs are located in ten states. The Small Business Investment Act of 1958 declares a mission to "ensure the provision of small business investment company financing to all areas of the country." As a government-backed venture, the SBIC program should be resistant to market pressures that concentrate investment in finance-heavy regions, instead using its funds to ensure a broader distribution of its benefits. The legislation would increase the ability of the SBA to meet this standard, and increase the SBA's accountability to Congress.

III. HEARINGS & ROUNDTABLES

In the 112th Congress, the Committee held a roundtable on March 22, 2012 entitled, "A Spotlight on Small Business Investment Companies and Their Role in the Entrepreneurship Ecosystem." The roundtable included a discussion about entrepreneurial education in relation to SBICs and the display of a map demonstrating that there were few SBICs located outside of a small number of states.

In the 114th Congress, the Committee held a hearing on July 14, 2016 entitled, "How Venture Capitalist and Angel Investors Fund Entrepreneurs and Startup Companies." During this hearing, Mr. Joe Schocken, President of Broadmark Capital, observed in his opening statement that there were enormous regional disparities in access to startup financing and that regional concentrations in venture capital were concerning. During the course of questioning, Senator Peters also noted and expressed concern about the regionalization of innovation. Senator Hirono expressed similar concerns about her home state of Hawaii.

In the 115th Congress, Small Business Administrator Linda McMahon responded to a question pertaining to the importance of equity funding for startups and small businesses when the majority of venture funding is concentrated in cities on the west and east coasts. Administrator McMahon noted that geographic diversity is essential to the growth of entrepreneurship and innovation that drive our economy.

Also in the 115th Congress, the Committee held a hearing on April 26, 2017 entitled, "The Challenges and Opportunities of Running a Small Business in Rural America." During this hearing, Senator Shaheen asked Mr. John Lettieri, of the Economic Innovation Group, what public policy changes could be made to encourage

rural business. He observed that regional disparities in access to capital were concerning and that public policy could help leverage private investment and change, in a market-based way, the risk profile of investments in rural areas.

IV. DESCRIPTION OF BILL

This bill requires the Small Business Administration (SBA) Administrator to give first priority to Small Business Investment Company (SBIC) program applicants located in underlicensed and under-financed states, expands a provision in the Small Business Investment Act of 1958 providing certain exemptions from full private capital requirements to include applicants from underlicensed states, and directs the Administrator to include additional information in the SBA's annual report to Congress on small business investment activities.

V. 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 Spurring Business in Communities Act of 2017, a bill to amend the Small Business Investment Act of 1958 to improve the number of small business investment companies in underlicensed States, and for other purposes, 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.

VI. 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:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, November 16, 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. 1995, the Spurring Business in Communities Act of 2017.

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.

S. 1995—Spurring Business in Communities Act of 2017

The Small Business Administration (SBA) operates a program that provides loan guarantees to Small Business Investment Companies (SBICs) that make investments in qualifying small busi-

nesses. The SBA must approve applications for an SBIC to operate. S. 1995 would direct the SBA to give first priority to applicants that wish to operate SBICs in states where the number of SBICs per person is below the median number of SBICs per person for all states. The bill also would make an SBIC operating in an underlicensed state eligible to receive loan guarantees from SBA if it was otherwise ineligible. Lastly, the bill would expand existing SBA reporting requirements for the SBIC program.

Using information from the SBA, CBO estimates that establishing a prioritization process would increase the number of SBIC applications that the SBA would review. CBO estimates that implementing the bill would increase gross costs by about \$2 million a year over the 2019–2023 period for the agency to hire about 15 additional staff to review a larger number of applications on an expedited basis; such spending would be subject to the availability of appropriated funds. A portion of those costs could be offset by SBIC licensing fees that the agency typically charges under current law; therefore, CBO estimates that S. 1995 would increase net costs to the SBA by about \$8 million over the 2019–2023 period, assuming agency action consistent with that authority.

CBO also estimates that expanding the availability of loan guarantees to SBICs that otherwise would not be eligible would increase the amount and the gross cost of loan guarantees that the SBA could make; however, CBO estimates that the estimated net subsidy cost to the government would not be affected because the SBA would raise fees to cover any such costs.

Enacting S. 1995 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

CBO estimates that enacting S. 1995 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2029.

S. 1995 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

VII. 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.

VIII. SECTION-BY-SECTION ANALYSIS

Section 1. Short title

This section provides the short title for the Act, the “Spurring Business in Communities Act of 2017”.

Sec. 2. Improving the number of small business investment companies in underlicensed states

This section provides a definition for an “under-licensed” state. It also directs the SBA Administrator to give first priority to SBIC applicants located in underlicensed and under-funded states, while expanding an exemption from full private capital requirements in the Small Business Investment Act of 1958 to include underlicensed states. Finally, this section requires the SBA to include information on SBIC licensing, the identification of underlicensed

states, and the SBA's plans to increase the number of licensees in underlicensed states in their annual report to Congress on small business investment activities.

