



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 7, 2007

H.R. 1873 **Small Business Fairness in Contracting Act**

As reported by the House Committee on Small Business on April 26, 2007

SUMMARY

H.R. 1873 would make several changes to the laws that promote and encourage federal agencies to contract for goods and services with small businesses. The legislation would amend the definition of "bundled contracts" (the practice of combining two or more contracts into a single agreement) for the procurement of goods and services and require agencies to better justify the need for such larger contracts rather than smaller ones that could be available to small businesses. The federal government currently has a goal of acquiring 23 percent of most goods and services from small business. The bill would increase that goal to 30 percent and apply it to each agency individually, as well as to all agencies collectively. H.R. 1873 also would require the Small Business Administration (SBA) to develop new regulations and new databases and to conduct other efforts to encourage and promote the use of small businesses in government contracting.

CBO estimates that implementing H.R. 1873 would cost \$83 million in fiscal year 2008 and \$945 million over the 2008-2012 period, subject to the availability of appropriated funds. We expect that most of those costs would fall on the largest agencies the Department of Defense, the Department of Energy, and the National Aeronautics and Space Administration—that have not met the current goal for contracting with small businesses. Enacting the bill would have no effect on direct spending or revenues.

The legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1873 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit) and all other budget functions that include spending to procure goods and services.

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Administration of Governmentwide Procurement					
Estimated Authorization Level	100	175	200	240	260
Estimated Outlays	80	150	200	240	260
Small Business Administration					
Estimated Authorization Level	3	3	3	3	3
Estimated Outlays	3	3	3	3	3
Total Changes					
Estimated Authorization Level	103	178	203	243	263
Estimated Outlays	83	153	200	243	263

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 1873 will be enacted near the end of fiscal year 2007, that the necessary amounts will be appropriated over the 2008-2012 period, and that outlays will follow historical spending patterns for contract administration spending. CBO estimates that implementing H.R. 1873 would cost \$83 million in 2008 and \$945 million over the 2008-2012 period, assuming appropriation of the necessary funds.

Administration of Governmentwide Procurement

H.R. 1873 would change the definition of bundled contracts to include the procurement of new and existing goods or services with a value of at least \$1.5 million and construction projects worth more than \$65 million. Under the bill, agencies would have to justify the use of bundled contracts by evaluating whether or not such work could be performed by small business. The SBA could appeal to the Office of Federal Procurement Policy to determine whether the use of bundled contracts by an agency is justified. In addition, H.R. 1873 would amend current law to increase the goal of using contracts with small

businesses from the current governmentwide goal of 23 percent of the value of all contracts to 30 percent. In addition, the goal would apply to each agency individually, as to well as all agencies collectively.

Based on information from agencies with the most procurement spending and an analysis of SBA reports on governmentwide and small business contracts, CBO expects that implementing the bill would have a significant discretionary cost to review and analyze the need for bundled contracts, prepare additional market research to identify small business concerns able to perform government contracts and provide necessary products, and expand existing mentoring and developmental programs to prepare small business to obtain government procurement opportunities. Based on current contract administration costs and the size and characteristics of those contracts, CBO estimates that complying with H.R. 1873 would increase costs by about \$200 million annually—or about 7 percent of the roughly \$2.5 billion that CBO estimates is spent each year to administer the government's procurement contracting efforts. We expect that this increase would occur over a three-year period. Thus, the estimated costs are phased in between 2008 and 2010. Most of this cost would be incurred to administer additional smaller contracts.

Governmentwide Procurement

CBO expects that agencies would continue to encourage the use of small business for the procurement of goods and services and seek to meet the goal for such contracts in this legislation. CBO expects, however, that agencies would continue to purchase goods and services at the lowest price available and that small business contracting goals would be met to the extent that doing so would not significantly increase the cost of procuring needed goods and services.

Small Business Administration

Several provisions of H.R. 1873 would increase the responsibilities of the SBA to monitor and support small business preferences in government contracting and procurement. Such responsibilities would include reviewing bundled contracts and auditing contractor databases. Based on information from SBA, CBO estimates that implementing those provisions would cost about \$3 million per year, subject to the availability of appropriated funds.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1873 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On May 7, 2007, CBO also transmitted a cost estimate for H.R. 1873 as ordered reported by the House Committee on Oversight and Government Reform on May 3, 2007. The version of the bill ordered reported by the Committee on Oversight and Government Reform would not significantly change the current governmentwide goal for contracting with small businesses, and thus, CBO expects it would be less costly to implement.

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