

SUPPORTING STATEMENT FOR SBA FORM 1031
PORTFOLIO FINANCING REPORT

A. Justification

1. Circumstances necessitating the collection of information. The Small Business Investment Act of 1958, as amended (Act), authorizes the Small Business Administration (SBA) to license Small Business Investment Companies (SBICs) and to regulate their operations. Section 310(b) provides that each SBIC shall make such reports to SBA at such times and in such form as SBA may require. SBA regulations (13 CFR 107.640) require SBICs to submit a Portfolio Financing Report on SBA Form 1031 for each financing that an SBIC provides to a small business concern. The form is SBA's primary source of information for compiling statistics on the SBIC program as a provider of capital to small businesses; this information is needed to evaluate the program's contribution toward its public policy goal of furthering the growth of small business and creating economic benefits such as job creation and increased tax revenue. SBA also uses the information provided on Form 1031 to evaluate individual SBICs' compliance with regulatory requirements.

SBA is proposing minor changes to the form, related to the proposed regulations to make "energy saving debentures" available to SBICs that make "energy saving qualified investments". This proposed rule is currently under OMB review.

- A new question 12b in Part A of the form will ask the respondent to check a box to indicate that the reported financing is an energy saving qualified investment (as defined in the proposed rule).
- If yes, the respondent will be asked to check a second box if the SBIC financed the transaction using SBA leverage in the form of an energy saving debenture.
- If yes, the respondent will be asked to use a pull-down menu to choose the part of the energy saving qualified investment definition that best describes the small business that received the financing. For example, does the business manufacture an energy-saving product? Install such a product? Conduct energy audits?

This information will help SBA to assess the usage of the energy saving debenture, which will be particularly important because of the potential impact on the subsidy rate for the debenture program. The new information will also enable SBA to identify key characteristics of investments made by SBICs in the energy sector and the extent to which SBICs are making energy-related investments using the standard SBA debenture.

The new information being requested is readily available to SBICs completing the form shortly after a financing is closed, either in the financing documents that have just been executed or in the investment memorandum that SBICs prepare as part of their standard pre-investment due diligence.

2. How, by whom, and for what purpose information will be used. The information on Form

1031 is used by SBA staff to evaluate the investment activities of individual SBICs in terms of compliance with applicable regulations and consistency with the overall objectives of the program (to further the growth, expansion and modernization of small business). The information is also used in the aggregate by SBA to evaluate program effectiveness. The information collected can be compared to available financing statistics for the venture capital industry as a whole to determine the extent to which the SBIC program is filling a market gap by meeting the financing needs of business which otherwise do not have adequate access to private equity funding. In addition, the pre-financing information collected, including number of employees, revenues, profits and taxes paid, provides baseline figures which are then updated annually on SBA Form 468 in accordance with 13 CFR 107.630(e). This information helps SBA to measure the economic impact of the SBIC program over time.

3. Technological collection techniques. SBA provides all SBICs with a Windows-based electronic version of Form 1031 which can be installed on a PC. This software allows an SBIC to complete the form on the computer and transmit the completed data file to SBA via electronic mail or on diskette. SBA has engaged a contractor to create a Web-based version of the Form 1031 reporting software that is scheduled to be introduced in 2011. SBA believes this move to online form completion and submission will be more convenient for respondents.
4. Avoidance of Duplication. Pre-financing financial information for small businesses financed by SBICs is not reported in any other format. Therefore, there is no duplication of information with this form.
5. Impact on small business or other small entities. The only entities required to complete Form 1031 are licensed SBICs, a majority of which are small entities; however, the economic impact on these entities is not significant. The information requested on Form 1031 is the type of information that any investment company must maintain in the ordinary course of business, i.e. information about the type of financing being provided and the company receiving the financing. An SBIC considering whether to make a debt or equity investment in a small business concern normally requests extensive financial and operating information from the concern as part of its due diligence process. SBA has attempted to limit the information collected on Form 1031 to areas which SBICs would ordinarily have available as a result of their due diligence process.
6. Consequences if collection of information is not conducted. SBA Form 1031 is designed to provide information to evaluate the extent to which the SBIC program is helping to further the growth, expansion and modernization of small business, and to help ensure that SBICs are operating in compliance with program regulations. There is no similar information available which can be used to accomplish the purposes of this collection. If the collection were not conducted, or were conducted less frequently, SBA would be significantly handicapped in its ability to fulfill its statutory oversight and program evaluation responsibilities. For example, SBA would not be able to determine the number or dollar amount of small business financings taking place, the industries and geographic regions in which financings are concentrated, or the intended uses of financing proceeds.
7. Existence of special circumstances. Respondents are required to file Form 1031 within 30

days after closing a financing to a small business. Therefore, depending on the number of financings completed, Form 1031 may be submitted to SBA more often than quarterly. In SBA's experience, this requirement benefits both SBA and the responding SBICs because the form is completed when all the necessary information is readily available from the closing documents. It is more difficult to complete Form 1031 long after an investment has been made, as the details are no longer fresh and relevant documents have been filed away, leading to a more time-consuming and error-prone completion process.

8. Solicitation of public comment. A notice was published in the Federal Register on July 14, 2010, Volume 75, Number 134, page 40856. No comments were received.
9. Payment or gifts. No payments or gifts are provided to respondents.
10. Assurance of confidentiality. The information collected includes financial data of the SBIC and portfolio company, which is protected from disclosure under the Freedom of Information Act; specifically, exemptions 4, 6 and 8 allow SBA to withhold financial data on individual companies. The information collected will be protected to the extent permitted by law.
11. Questions of a sensitive nature. Questions 13 through 15 ask about ethnicity and gender of portfolio company owners and top managers in order to evaluate the program's contribution to furthering the growth of small business in historically underserved communities. No individuals' names are collected in connection with this request, and SBA does not release information by individual portfolio company.
12. Estimate of the hourly burden of the collection of information. The total annual hour burden is 560 hours, determined as follows

Completion time per response	0.2 hours	(12 minutes)
Number of responses	<u>x 2,800</u>	
Total annual hour burden	560 hours	

Estimated completion time was based on consultation with a small sample of respondents.

The estimated cost of the hour burden for an SBIC to prepare SBA Form 1031 is \$7.00. The estimated aggregate cost is computed as follows:

Hours per response	0.2
Hourly wage for accountant	<u>x \$35</u>
Total preparation cost per form	\$ 7
Estimated number of responses	<u>x 2,800</u>
Total cost	\$19,600

13. Estimate of total annual cost burden. There is no annual cost burden resulting other than the cost of the hour burden. The equipment required to prepare and transmit Form 1031 (a personal computer with an Internet connection) would normally be purchased by an SBIC as

part of customary and usual business practices.

14. Estimated annualized cost to the Federal government. The cost to the Federal Government to collect the information is estimated to be \$17,680 annually, or \$6.31 per form. Estimated annualized cost to Federal Government is computed as follows:

Verification and clean-up of transmitted data:

GS-12 program assistant, 208 hrs/yr (4 hours weekly) @ \$40/hr	\$8,320
GS-14 supervisor, 156 hrs/yr (3 hours weekly) @ \$60/hr	<u>9,360</u>
Total annualized cost to Federal Government	\$17,680
Divided by number of forms	<u>2,800</u>
Cost per form	\$ 6.31

15. Explanation of program changes in Items 13 or 14 on OMB Form 83-I. The decrease in the hour burden in item 13 of OMB Form 83-I reflects recent decreases in the number of SBIC financings, primarily as a result of the continuing wind-down of the participating securities program. There is no change in the estimated hour burden per response.

16. Collection of information whose results will be published. Results of this collection of information will not be published.

17. Expiration date for collection of information. Not applicable.

18. Exceptions to certifications in Block 19 on OMB Form 83-I. Not applicable.

B. Collection of Information Employing Statistical Methods

This collection of information does not employ statistical methods.