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Mr. Crystal

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

SSA



OFFICE OF GENERAL COUNSEL

IN REPLY
REFER TO:

B-197439

October 7, 1980

The Honorable Benjamin A. Gilman
U.S. House of Representatives

Dear Mr. Gilman:

Do not make available to public reading

This is in reply to your inquiry of August 12, 1980, concerning the dissatisfaction of the Village of New Square with recent actions reportedly taken by the Small Business Administration (SBA). Apparently, the Village of New Square is disturbed over the possibility that SBA will not fulfill its promise to invest in Square Deal Venture Capitol Corporation, a minority enterprise small business investment company (MESBIC) in which New Square is interested. Presumably, SBA's purported actions were based on a recent Comptroller General decision.

On July 29, 1980, we issued our decision B-197439 (copy enclosed), holding that, absent a specific statutory provision to the contrary, SBA lacks authority to leverage against Federal funds invested in MESBICs, since the statute generally applicable to leveraging investments in MESBICs limits the leverage to "private" funds, that is, to investments made by private, non-federal sources. The decision points to investments in MESBICs pursuant to the Community Services Act as an example of a situation where a specific statutory provision allows Federal money to be considered private for leveraging purposes. In the situation at issue in B-197439, however, the source of the Federal funds was the Federal Railroad Administration, and there was no statutory authority for the investment to be considered private for matching or leveraging purposes. And the source of the Federal investment in the Square Deal Venture Capitol Corporation of New Square, apparently, is a block grant authorized under the Community Development Act of 1974, a statute not considered in our decision.

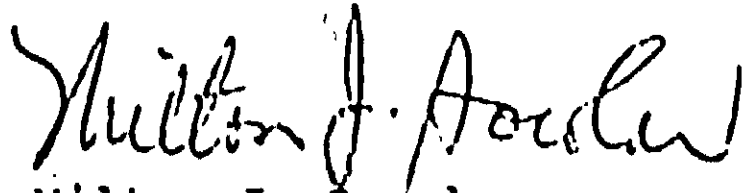
We understand that SBA is categorizing the Federal investments in MESBICs as well as any existing SBA leveraging commitments, and plans to request our assistance in determining how to treat existing leveraging commitments. That will, undoubtedly, include consideration of investments in MESBICs authorized under the Housing and Community Development Act of 1974, and whether SBA is authorized by statute to leverage against them. Since the Federal investment in Square Deal

B-197439

was authorized under the Community Development Act of 1974, we assume it is one that SBA plans to consult us about. We suggest that the interested parties ask SBA to keep them informed of developments.

We hope this responds to your inquiry. The letter from the Mayor of New Square is returned, as you asked.

Sincerely yours,



Milton J. Socolar
General Counsel

Enclosures - 2