

# SMALL BUSINESS ADMINISTRATION

## AT A GLANCE:

**2006 Discretionary Budget Authority:** \$593 million  
(Decrease from 2005: 3 percent)

## Major Programs:

- Small Business Loans
- Small Business Development Centers
- Disaster Loans



## MEETING PRESIDENTIAL GOALS

### *Promoting Economic Opportunity and Ownership*

- Guaranteeing small business loans in 2006 through the 7(a) program.
- Providing fixed-rate loans for land, equipment, and buildings through the Section 504 program.
- Assisting and training approximately 700,000 entrepreneurs in 2006 through Small Business Development Centers.
- Helping more than 410,000 business owners receive counseling and mentoring from business executives under the SCORE program.
- Streamlining Federal regulations and reducing paperwork burdens, reducing the growth of regulatory costs for small businesses by nearly \$6 billion.

### *Supporting a Compassionate Society*

- Issuing approximately 25,000 low-interest loans to businesses and homeowners under the Disaster Loan program to cover uninsured losses resulting from natural disasters.

## PROMOTING ECONOMIC OPPORTUNITY AND OWNERSHIP

Small businesses account for more than half of existing private sector jobs, two-thirds of net new private sector jobs, and more than half of the United States' Gross Domestic Product. The Small Business Administration's (SBA's) mission is to promote small business development and entrepreneurship through business credit and technical assistance programs. In addition, SBA works with other Federal agencies to reduce regulatory and paperwork burdens.

In order to meet the demand of the growing small business sector, the Budget supports more than \$25 billion in small business lending. The 7(a) program, which received an Adequate rating under the Program Assessment Rating Tool, is being increased to support \$16.5 billion in guaranteed loan volume in 2006, the largest level in the history of the program. This will provide financing to entrepreneurs who could not obtain affordable loans without a Government guarantee. A 10-percent increase in the Section 504 program, to \$5.5 billion in loan volume, will increase borrower access to fixed-rate financing for fixed assets such as land, equipment, and buildings. SBA will also supplement the capital of Small Business Investment Companies with \$3 billion in long-term loans for venture capital investments in small businesses.

### **Economic Opportunity**

For more than 20 years Beth Harshfield worked for prominent marketing and advertising companies. In June of 2000, she formed a small business of her own, Exhibit Arts LLC, providing exhibit design and fabrication, and conference and event management services

As an American Indian, she received her 8(a) certification in the fall of 2003. With this assistance, her once part-time and home-based business now occupies a 7,000-square foot facility in downtown Wichita, Kansas. Her clients include the Air Force, Army, and Environmental Protection Agency, in addition to numerous commercial customers.

SBA and its partners provide technical assistance programs, including training, counseling, mentoring, and information services to more than four million existing and potential entrepreneurs annually. SBA also provides guidance to the new Urban Entrepreneurs Partnership, announced by President Bush in July 2004. SBA provides grants to a network of over 1,100 Small Business Development Centers; 389 SCORE chapters, which match executives with entrepreneurs for business counseling; and 84 Women's Business Centers. The Budget requests nearly \$108 million for technical assistance programs in 2006.

Regulatory and paperwork requirements are especially cumbersome on small businesses. SBA's studies have found that small businesses with fewer than 20 employees spend an average of \$6,975 per employee complying with regulations as compared to \$4,463 per employee for firms with more than 500 employees. SBA works with Federal agencies to minimize the burden of regulations. As a result of the Administration's efforts since 2001, SBA estimates that the growth of regulatory costs for small businesses has been reduced by over \$50 billion. In 2006, SBA efforts are expected to reduce such cost growth by an additional \$5.6 billion.

In addition to SBA's programs, the Administration is championing small business interests through tax cuts and health care reform. As a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), 25 million small businesses and their owners received tax relief averaging more

than \$3,000 each in 2004. JGTRRA quadrupled the expensing provision to \$100,000, raised the expensing phase-out threshold to \$400,000, and increased the first year “bonus” depreciation deduction from 30 to 50 percent. The first two provisions were extended through 2007 by the American Jobs Creation Act of 2004. The Administration also supports legislation enabling creation of Association Health Plans, which will allow small businesses to band together and purchase insurance at lower rates, and making insurance premiums associated with Health Savings Accounts tax deductible. In addition, the proposed comprehensive reform of the Nation’s medical liability laws will make insurance costs more affordable and reasonable for small businesses.

### ***Procurement Policy***

The Federal Government annually buys over \$200 billion in goods and services, and has a statutory goal of awarding at least 23 percent of its purchases to small businesses. The Federal Government maintains its strong commitment to achieving and exceeding this goal.

As part of this effort, SBA assists agencies by negotiating agency-specific procurement goals, monitoring performance, and encouraging use of small business sources. In addition, as part of the President’s commitment to help small businesses, the Administration implemented a strategy to minimize the adverse effects of inappropriate contract bundling—the grouping of separate and often unrelated purchasing activities into a single contract, a practice that increased among Federal agencies in the 1990s.

## SUPPORTING A COMPASSIONATE SOCIETY



Florida building damaged by Hurricane Charlie.

SBA's disaster loans help homeowners, renters, businesses of all sizes, and non-profit organizations finance rebuilding and recovery efforts. Working primarily with the Department of Homeland Security's Federal Emergency Management Agency, SBA sets up temporary field offices in disaster areas to help issue low-interest construction and economic-assistance loans.

As a result of the four hurricanes in the southeastern United States in August and September 2004, SBA received supplemental appropriations adequate to issue approximately 80,000 loans totaling about \$4 billion

in 2005. These loans will assist homeowners and businesses in repairing their damaged property and provide businesses with operating funds during the recovery period. The 2006 Budget requests funding to support \$810 million in disaster loans based on the five-year average demand under the program, excluding large scale events such as the recent hurricanes in the Southeast.

## **MAKING GOVERNMENT MORE EFFECTIVE**

Consistent with the President's Management Agenda, SBA is administering its programs more efficiently to improve customer service and reduce program costs. Building upon its success in consolidating loan liquidation functions from 69 district offices to a single location, SBA is also working to consolidate other loan origination and management functions. While providing administrative cost savings, these changes ensure that loans are managed more consistently and efficiently. The consolidation of loan liquidation activities in 2004 reduced agency costs for this function from \$32 million to \$16 million per year.

SBA seeks to target assistance more effectively to credit-worthy borrowers who would not get loans from the commercial markets in the absence of a Government guarantee. SBA is actively encouraging financial institutions to increase lending to start-up firms, low-income entrepreneurs, and borrowers in search of financing below \$150,000. Preliminary evidence shows that SBA's outreach for the 7(a) program has been successful. Average loan size has decreased from \$241,000 in 2000 to \$167,000 in 2004, while the number of small businesses served has grown from 43,748 to 81,133 during the same time.

SBA has also begun monitoring and managing its portfolio risk through the Loan Monitoring System. The implementation of this system enables the agency to track the performance of lenders relative to the credit scores of borrowers in their guaranteed loan portfolio. This provides the agency with a tool to identify lenders that pose the greatest risk to Federal taxpayers for similar types of borrowers, and to suggest intervention when necessary to avoid further risk.











The 2006 Budget proposes termination of the Microloan program, which has been excessively expensive relative to other programs. The 7(a) program is capable of serving similar clientele through the Community Express program at a much lower cost to the Government.

The 2006 Budget supports \$3 billion in new guaranteed venture capital investments for small businesses through the Small Business Investment Company Debenture program, which provides credit financing. However, with realized and projected losses exceeding \$2 billion in the Participating Securities program, which provides equity-type venture capital financing, the 2006 Budget does not support new guaranteed investments in this program. Rather than make new investments through this program, SBA will continue to improve efforts to monitor and mitigate risk in the outstanding \$9 billion Participating Securities portfolio.

**MAKING GOVERNMENT MORE EFFECTIVE—Continued**



***Update on the President’s Management Agenda***

The table below provides an update on SBA’s implementation of the President’s Management Agenda as of December 31, 2004.

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
<b>Status</b>					
<b>Progress</b>					

*Arrow indicates change in status since evaluation on September 30, 2004.*

SBA has made solid progress in most areas of the President’s Management Agenda. To improve service to the public, the agency assessed its staff’s skills, contracted for training, increased accountability of managers, and conducted competitive sourcing competitions in 2004. As the leader of the Business Gateway, SBA has launched the website *www.Business.gov*, which helps small business owners easily find, understand, and comply with Federal regulations. SBA is working with other Federal agencies to reduce the paperwork burden on businesses. In the area of Budget Performance and Integration, SBA is making progress by improving its ability to measure, monitor, and mitigate risk in its loan portfolio. SBA has also made progress in developing new estimation models to improve financial management and more accurately measure the cost of providing credit to small businesses.

Initiative	Status	Progress
Eliminating Improper Payments		

SBA developed targets for the Disaster Loan and Small Business Investment Company programs and is in the process of developing new ones for the 7(a) General Business Loan program. (Because this is the first quarter that agency efforts in this Initiative were rated, progress scores were not given.)

**Small Business Administration**  
(In millions of dollars)

	2004 Actual	Estimate	
		2005	2006
<b>Spending</b>			
Total, Discretionary budget authority .....	757	610	593
<i>Memorandum: Budget authority from enacted supplementals .....</i>	30	929	—
Total, Discretionary outlays .....	796	1,373	823
Total, Mandatory outlays .....	3,279	1,663	—33
Total, Outlays .....	4,075	3,036	790
<b>Credit activity</b>			
Direct Loan Disbursements:			
Direct Disaster Loans.....	467	2,900	1,100
Direct Business Loans.....	21	15	5
Total, Direct loan disbursements .....	488	2,915	1,105
Guaranteed Loan Commitments:			
Guaranteed Business Loans .....	14,067	21,000	21,000
Total, Guaranteed loan commitments.....	14,067	21,000	21,000