

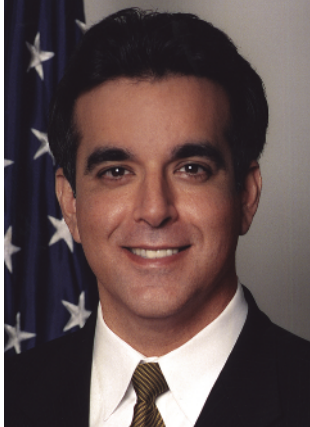
SMALL BUSINESS ADMINISTRATION

Since 2001, the Administration:

- Provided 23 million small business owners with tax relief averaging more than \$2,853 through 2003, by quadrupling the expensing provision to \$100,000, raising the expensing phase-out threshold to \$400,000, and raising the first year “bonus” depreciation deduction from 30 to 50 percent under the Jobs and Growth Tax Relief Reconciliation Act of 2003;
- Expanded the availability of capital for entrepreneurs to start and grow small businesses;
- Reduced the burden on small businesses of complying with Federal regulations;
- Provided over \$3.3 billion in disaster assistance relief for events ranging from terrorist attacks to hurricanes and wildfires;
- Improved contracting opportunities for small businesses to sell goods and services to the Federal Government; and
- Enabled more small businesses to cover workers for major medical problems by creating Health Savings Accounts, and supports legislation which will create Association Health Plans that allow multiple small businesses to purchase health insurance as a group at lower rates.

The President’s Budget:

- Helps spur job creation by funding \$24 billion in small business lending and equity programs;
- Establishes an online single-point-of-access to help small businesses comply with Federal regulations and access information (www.businesslaw.gov); and
- Ensures that small businesses receive a fair share of the \$200 billion in annual Federal purchases.



Administrator Hector Barreto

Small Business Administration

Hector V. Barreto, Administrator

www.sba.gov 202-205-6605

Number of Employees: 3,967

2005 Discretionary Budget Authority: \$678 million

OVERVIEW

The Small Business Administration (SBA) contributes to the President's economic agenda by helping entrepreneurs start, sustain, and grow small businesses and create jobs. SBA also helps families and businesses recover from physical disasters. The 2005 Budget for SBA supports small businesses with an increase in the availability of government-guaranteed capital, technical assistance to raise small businesses' competitiveness, and improved contracting opportunities to sell products and services to the Federal Government. SBA is also improving customer service and administering programs more efficiently by implementing the President's Management Agenda.

Assistance for small businesses is not limited to SBA's technical assistance and credit programs. Additional support is provided under the bipartisan tax relief enacted over the last three years. As a result, 23 million small business owners have benefited from lower marginal income tax rates and an increase in depreciation deductions for qualified investments.

Small business ownership is a great equalizer in America. The only connections you need are happy customers, and a good business plan. The only credentials you need are good products ... For millions of minorities and women and new Americans, small businesses provide a great chance to succeed in America, a chance to realize your dreams.

President George W. Bush

March 2002

2003 Tax Relief for Small Business Owners

The Jobs and Growth Tax Relief Reconciliation Act of 2003 provided major benefits for small business:

- Small business owners receive 79 percent—about \$9.7 billion—of the tax relief from accelerating (from 2006 to 2003) the reduction in the top income tax bracket to 35 percent.
- The amount of investment eligible for expensing quadruples—to \$100,000—beginning in 2003 for firms with investments less than \$400,000. This provides a large tax saving and investment incentive, and also reduces record-keeping burdens.

SMALL BUSINESSES LENDING

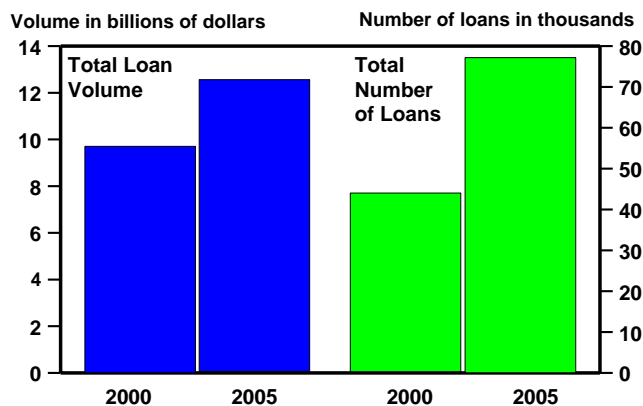
The Budget expands the Section 7(a) program to enable \$12.5 billion in guaranteed loan volume in 2005, a more than 25-percent increase from 2004. This will provide financing to entrepreneurs who could not obtain loans without a Government guarantee. Altogether, the 2005 Budget requests \$129 million in administrative expenses to support \$24 billion in guaranteed lending and equity investments for the Section 7(a) General Business Loan, Section 504 Certified Development Company Guaranteed Loan, and Small Business Investment Company (SBIC) programs.

To continue to effectively address the financing needs of small businesses, SBA will: 1) assess the impact and effectiveness of its capital access programs; 2) administer programs more efficiently; and 3) target and expand access to credit.

Assess Program Impact and Effectiveness. The Program Assessment Rating Tool (PART) revealed that although SBA's technical assistance programs provide similar education, training, and information services to over four million entrepreneurs annually, standard measures to compare the effectiveness of each program are lacking. To address this finding, SBA is developing methods to measure the impact of these programs in helping entrepreneurs to start, sustain, and grow their businesses. PART findings also revealed that the structural flaws in the SBIC program are based upon a number of factors: 1) the Federal Government's profit share is not commensurate with its investments; 2) SBICs do not have incentives to repay capital expeditiously, extending the government's risk exposure; and 3) the methodology for calculating the program's cost should be reexamined to more accurately capture the risk of subsidizing venture capital investments. The 2005 Budget takes necessary steps to address these issues.

The 2005 Budget also includes a legislative proposal to improve the performance of SBA's venture capital program, the SBIC program. The proposal would increase the government's share of profits, increase borrower fees, encourage SBICs to repay principal faster, and minimize the Government's risk exposure. With estimated losses to the taxpayer of about \$2 billion on the Federal Government's outstanding guarantees of about \$5 billion, these changes are necessary to make the program fiscally sound.

Section 7(a) General Business Loans



Source: Small Business Administration.

expensive relative to alternative programs. The 7(a) program is capable of serving the same clientele through the Lowdoc and Community Express programs for much lower cost to the Government.

Target and Expand Access to Credit. 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 to pay off loans. 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 2003, while the number of small businesses served has grown from 43,748 to 67,306 during the same time period. In addition, SBA issued new regulations for the Section 504 program that foster additional competition among intermediaries, thereby allowing borrowers greater access to loans.

Manage More Efficiently. As part of the President's Management Agenda, SBA is administering its programs more efficiently to improve customer service and reduce program costs. Specifically, SBA is helping banks to issue Section 504 guaranteed loans faster by consolidating the origination process in a central location. SBA is reducing the amount of time that it takes for an entrepreneur to obtain a Section 504 loan from weeks to less than two days. SBA is also making progress in consolidating its loan liquidation function to minimize financial losses on its loan portfolio. The 2005 Budget also proposes to terminate the Microloan program, which has been excessively

DISASTER LENDING



Administrator Barreto confers with other SBA officials after a fire destroyed buildings in San Diego in November 2003.

Through SBA's Disaster Loan program, individuals and businesses adversely affected by physical disasters can borrow funds at low interest rates for extended periods. SBA's disaster loans help homeowners, renters, businesses of all sizes, and nonprofit organizations finance rebuilding and recovery efforts. Working primarily with the Department of Homeland Security, SBA sets up temporary field offices in disaster areas to help the public apply for low-interest construction and economic assistance loans. The 2005 Budget requests funding to support \$792 million in disaster loans.

Automate Disaster Loan Applications. To increase responsiveness to disasters and reduce administrative burdens, SBA's Disaster

Loan program is testing a paperless loan-application processing system. By 2005, the system is expected to result in a 25 percent productivity increase. More importantly, such a system will let staff readily review files anywhere, regardless of the city, town, or region of a disaster, thereby

improving service to the public. Under this new system, SBA will be able to minimize paperwork burdens on affected citizens by sharing data electronically with other SBA programs and with disaster relief agencies.

TECHNICAL ASSISTANCE

SBA and its partners provide technical assistance programs, including training, counseling and mentoring, and information services to more than four million existing and potential small business entrepreneurs annually. The assistance is provided on-line as well as in-person and ranges from guidance on starting a business to export counseling. SBA provides grants to a network of over 1,100 Small Business Development Centers, 389 SCORE chapters, and 84 Women's Business Centers.

Measuring the performance of these programs has been difficult because numerous external factors, such as the general state of the economy, can significantly affect small business sustainability. In addition, SBA partners do not always provide reliable or consistent data for measuring progress. As a result of the PART assessments, SBA has been developing new annual performance measures and outcome-oriented long-term goals that will reduce reporting burdens and improve data reliability. Coupled with better oversight of the reporting process, the improved data will enable policymakers to better measure program impact and performance. SBA will work more aggressively with its technical assistance grant recipients to collect information on business longevity, increased business activity, and the number of start-up firms assisted. The Budget requests approximately \$111 million for technical assistance programs in 2005.

FEDERAL PROCUREMENT

The Federal Government buys over \$200 billion in goods and services annually, and has a statutory goal of awarding at least 23 percent of its purchases to small businesses. As part of this effort, SBA assists agencies by negotiating agency-specific procurement goals, monitoring performance, and encouraging the use of small business sources.

Agencies in the 1990s increasingly grouped separate, and often unrelated, purchasing activities under a single contract. Effectively, this limited small businesses' participation in the bidding process. As part of the Administration's agenda to assist small businesses, the President assembled an interagency working group tasked with developing a strategy to "unbundle" Federal contracts, which may help the Government reach its 23 percent goal.¹

Consistent with the working group's recommendations, the Administration published regulations to: 1) ensure accurate reporting on contract bundling; and 2) require identification of alternative strategies for the proposed bundling (above certain agency-specific thresholds) and written justification when alternatives involving less bundling are not used.

¹ Contract bundling is the consolidation of two or more procurements previously provided under separate, smaller contracts into a single contract, which is unlikely to be suitable for awards to a small business.

Business Gateway

The Business Gateway Initiative (www.businesslaw.gov) consists of two main parts: the Business Gateway Portal and the E-Forms Portal. The Business Gateway Portal will be the single access point for businesses on government programs, services and information needed to start, run, and grow a business. It will also provide businesses with the tools to find information to comply with Government laws and regulations. In addition, the initiative will begin harmonizing the data collected on Federal forms for five industries to reduce the number of forms and related paperwork burden for those industries by 10 percent. The E-Forms Portal will be a single location where Government forms used by businesses and citizens can be found. The E-Forms Portal will also create a common Government-wide infrastructure for managing forms.

PERFORMANCE EVALUATION OF SELECT PROGRAMS











The Budget continues to focus on improving program performance. Six of SBA's programs were assessed using the Program Assessment Rating Tool (PART), which evaluated the programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on SBA's performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

Program	Rating	Explanation	Recommendations
Disaster Loan Program	Moderately Effective	The program recently developed new annual and long-term performance measures.	SBA needs to strengthen administrative procedures relating to program eligibility and continue to implement technology and processes to reduce administrative costs.
504 Certified Development Companies Guarantee Loan Program	Adequate	In 2003, SBA issued new regulations for the program that enhance competition among intermediaries, thereby increasing borrowers' access to loans. However, the program overlaps with the Section 7(a) General Business Loan program and has a complex financing structure.	SBA will examine whether it would be more cost-effective to the Government and borrowers to concentrate fixed asset loans in the 504 loan program or the 7(a) program rather than dividing this service between both programs.

Program	Rating	Explanation	Recommendations
Small Business Investment Company Program	Adequate	Program performance has been weak, with estimated losses to the taxpayer of about \$2 billion. The Federal Government's profit share is not commensurate with its investments, and the methodology for calculating the program's subsidy cost should be reexamined to more accurately capture the risk of subsidizing venture capital investments.	The 2005 Budget is proposing increased fees and profit-shares, which are necessary for the program to be fiscally sound. The Budget also improves the subsidy estimation methodology by including historical performance.

UPDATE ON THE PRESIDENT'S MANAGEMENT AGENDA

The table below provides an update on the Small Business Administration's implementation of the President's Management Agenda as of December 31, 2003.

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					

Arrow indicates change in status rating since evaluation on September 30, 2003.

SBA has made solid progress in implementing the President's Management Agenda. To improve service to the public, the agency has undertaken an assessment of its staff's skills, contracted for training, increased accountability of managers, and conducted competitive sourcing competitions in 2003. As the leader of the Business Gateway, SBA has launched the website *BusinessLaw.gov*, which helps small business owners easily find, understand, and comply with myriad Federal regulations and is working with other 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 small businesses credit subsidies.

Small Business Administration
(In millions of dollars)

	Actual		Estimate	
	2001	2003	2004	2005
Spending				
Discretionary Budget Authority:				
Existing law	900	761	757	678
Total, Discretionary budget authority	900	761	757	678
Total, Discretionary outlays	809	845	789	722
Total, Mandatory outlays	-1,380	713	3,189	-39
Total, Outlays	-571	1,558	3,978	683
Credit activity				
Direct Loan Disbursements:				
Direct Disaster Loans	683	686	700	750
Direct Business Loans	67	27	23	3
Total, Direct loan disbursements	750	713	723	753
Guaranteed Loan Commitments:				
Guaranteed Business Loans	10,963	12,800	15,004	21,003
Total, Guaranteed loan commitments	10,963	12,800	15,004	21,003

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
Status					
Progress					

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
Spending			
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
Credit activity			
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

SMALL BUSINESS ADMINISTRATION

Since 2001, the Administration:

- Supported nearly \$86 billion in small business loans through 2005;
- Provided tax relief of more than \$80 billion annually to 25 million small businesses since 2003. The average tax savings in 2005 was \$3,235 per small business;
- Signed free trade agreements and provided trade promotion services that help small business exporters sell their products to the world; and
- Reduced Small Business Administration staffing by 24 percent while improving customer service and making record numbers of Government-backed loans.

The President's Budget:

- Provides \$28 billion in Government-backed small business loans for 2007, the highest level ever for the Small Business Administration. This will help create and retain an estimated one million jobs;
- Proposes modest fee increases on very large loans to cover the administrative costs associated with providing Federal Government guarantees on these loans; and
- Reforms Disaster Loan program interest rates to ensure that borrowers receive generous benefits after a disaster event while reducing taxpayer costs.

FOCUSING ON THE NATION'S PRIORITIES

Small businesses provide more than half of existing private sector jobs, two-thirds of 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 financing and technical assistance programs. SBA also works with other Federal agencies to reduce regulatory and paperwork burdens on small businesses.

Reduced Taxes Help Small Businesses

[W]hen the tax cut hit the paychecks, our revenue went up. In fact, it saved us last year...[W]e were not having a good year last year, and we were looking at some retrenchment and stopping our growth. When the tax cut hit, we immediately began the move up, and had a strong fall, got back to even, which was good.

Scott George
Mid-America Dental and Hearing Center, Kansas City

In addition to SBA's programs, the Administration is championing small business interests through tax cuts and health care reform. The President's jobs and growth agenda is creating the right economic conditions to encourage innovation and growth by small businesses. The Administration has taken important steps to assist small businesses and the people they employ by reducing taxes, encouraging investment, and removing obstacles to growth.

As a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003, 25 million small businesses and their owners received tax relief averaging more than \$3,235 each in 2005. The lower marginal income tax rates have assisted more than 90 percent of small businesses that pay taxes at the individual income tax rates.

Recently enacted free trade agreements help small and medium-sized businesses (those with fewer than 500 employees) sell their products to the world, as these entities represent 97 percent of all exporters.

Continuing regulatory relief efforts ensure that Federal regulations do not unduly handicap America's entrepreneurs. Regulatory and paperwork requirements can be especially burdensome on small businesses. An SBA study found that small businesses with fewer than 20 employees spend an average of \$7,647 per employee complying with regulations as compared to \$5,282 per employee for firms with 500 or more employees. SBA works with Federal agencies to minimize the burden of new regulations. As a result of the Administration's efforts since 2001, SBA estimates that small businesses have been spared over \$41 billion in regulatory costs by filtering out unnecessary, over-burdensome, or duplicative requirements prior to finalizing new regulations. In 2007, SBA efforts are expected to save \$6.16 billion in forgone regulatory costs. SBA also launched www.business.gov as the official Federal business portal to reduce the amount of redundant data and forms submitted to the Government. This reduces the burden on small businesses.

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.

Helping Small Businesses' Capital to Grow

SBA Helps South Central Los Angeles Business Expand

Abel Diaz is a true local success story. After graduating from Inglewood High School in 1970, he went to work as an apprentice at Inglewood's Kream Krop Bakery. During 10 years of learning the bakery business, he moved up the ladder and was named the firm's general manager in 1980. Diaz spent the next six years managing the company before he struck out on his own and opened Lupita's Bakery in South Central Los Angeles in 1986. Diaz's 16 years of experience in the bakery business served him well. His well-managed business grew by leaps and bounds, allowing him to open a second bakery in South Central Los Angeles in 1990 and a third location in Huntington Park in 1996. Ever alert for new business opportunities, by 1998 Diaz became conscious of the fact there was a definite need for a banquet and restaurant facility in the community served by his bakeries that could also accommodate weddings and large group functions. He turned to SBA for assistance. Thanks to SBA-backed financing through Banco Popular, Diaz opened his Fiesta Mexicana Family Restaurant with available space for a banquet hall. It is strategically located next to Lupita's Bakery and is continually booked, busily providing a valuable and popular community gathering place. "Abel Diaz is a perfect example of how SBA financing can facilitate growth for an Emerging Market community," Los Angeles SBA District Director Alberto G. Alvarado said. "He has succeeded in both the bakery and catering businesses thereby creating new jobs in a historically underserved area. I congratulate him on his success."

To meet the demand of the growing small business sector, the Budget supports \$28 billion in small business lending. SBA's 7(a) program, which received an Adequate rating under the Program Assessment Rating Tool, is being increased to support \$17.5 billion in guaranteed loan volume in 2007, the largest level in the history of the program. This will provide financing to entrepreneurs who could not obtain affordable loans without a Federal Government guarantee. SBA's Section 504 loan program will support an additional \$7.5 billion in guaranteed loans for fixed-rate financing of fixed assets such as land, equipment, and buildings. SBA will also supplement the capital of Small Business Investment Companies with \$3 billion in guaranteed long-term loans for venture capital investments in small businesses.

Providing Technical Assistance

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 provides grants to a network of over 950 Small Business Development Centers; 389 SCORE chapters, which match executives with entrepreneurs for business counseling; and over 80 Women's Business Centers. The Budget requests \$104 million for technical assistance programs in 2007.

RESTRAINING SPENDING AND MANAGING FOR RESULTS

The 2005 Budget included a proposal to eliminate the subsidy cost of the 7(a) guaranteed loan program, which was successfully implemented. The program assisted more small businesses in 2005 than the previous year and this trend is continuing in 2006. In addition to saving taxpayers \$100 million per year, this budgeting change has brought stability to the program. Lending in the 7(a) program grew from \$9 billion in 2003 to \$14.3 billion in 2005. Whereas 2003 and 2004 shortfalls in appropriations required SBA to suspend program lending in several instances, the current zero subsidy has enabled lending to grow and not be interrupted by funding lapses. The 2007 Budget builds upon this success by proposing authority for \$17.5 billion of 7(a) lending, with borrowers covering the costs of administering Federal guarantees on business loans greater than \$1 million. This will make these loans self-financing and further reduce the need for taxpayer support.

Since 2001, the demand for SBA loans has grown significantly. At the same time, the Administration has maintained budgetary discipline in delivering small business services. During the period there was a 24-percent decrease in agency staffing but a rapid increase in agency services. For example, lending under the flagship 7(a) program increased from 43,000 to 89,000 loans per year, yet the cost of providing these services has dropped dramatically. In 2001, SBA programs cost \$1 billion in appropriations. The 2007 Budget will provide expanded services while only costing taxpayers \$624 million, a 38-percent cost decrease.

The Budget supports \$3 billion in new guaranteed venture capital investments for small businesses through the Small Business Investment Company Debenture program. However, with realized and projected losses exceeding \$2 billion in the Participating Securities program, which provided equity-type venture capital financing, the 2007 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 \$6 billion Participating Securities portfolio.



As a result of the unprecedented damage caused in the Gulf area from Hurricanes Katrina and Rita, SBA received a record number of disaster loan applications.

The 2007 Budget proposes to continue providing preferential loan terms to victims of disasters. However, to contain the escalating costs of the loans, the Budget proposes to adopt graduated interest rates for the Disaster Loan program beginning with disaster events occurring in 2007. During the first five years after a disaster, interest rates will remain deeply subsidized, as they are currently structured, although interest rate caps would be eliminated. Thereafter, rates would graduate to those of a comparable-maturity Treasury instrument. This structure would continue to provide borrowers with deep interest subsidies when they need them most—immediately after a disaster—and after five years the subsidies

would be reduced for the remainder of the loan period. This proposal would not affect loans made for recovery from disasters occurring before 2007.

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 loan guarantee processing and other 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 in 2003 to \$7 million in 2005.

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 \$232,000 in 2001 to \$160,000 in 2005, while the number of small businesses served has more than doubled 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 SBA with a tool to identify lenders that pose the greatest risk to Federal taxpayers and to suggest intervention when necessary to avoid further risk.

The 2007 Budget repropose 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 taxpayers.





The Budget requests additional administrative funding for SBA's critical investments in information technology. New investments include web-based data reporting and processing systems, which will expedite and facilitate the use of agency programs and allow growth in program usage while maintaining streamlined staffing levels.

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, 2005.

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
<p>To improve service to the public, SBA assessed its staff's skills, contracted for training, increased accountability of managers, and conducted competitive sourcing competitions in 2005. As the leader of the Business Gateway, SBA launched the website <i>www.Business.gov</i>, 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 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. In 2005, SBA received an unqualified opinion on its financial statements, although one repeat material condition remained.</p>					

RESTRAINING SPENDING AND MANAGING FOR RESULTS—Continued

Initiative	Status	Progress
Faith-Based and Community Initiative		
Eliminating Improper Payments		

The Agency established a faith-based center that works with community and faith-based groups to ensure access to SBA technical assistance grants. SBA continues to assess its loan programs for improper payments, particularly its 7(a) program.

SBA will participate in the new credit initiative because it has a portfolio of \$3.6 billion in outstanding direct loans, \$63 billion in outstanding loan guarantees, and \$681 million in delinquent debt. This initiative will be included in the scorecard beginning in the second quarter of 2006. SBA is developing new strategies to improve performance and outcomes in these areas. The Agency has also implemented a best-practices lender monitoring system that tracks performance through the use of credit scores.

Small Business Administration
(In millions of dollars)

	2005 Actual	Estimate	
		2006	2007
Spending			
Discretionary Budget Authority:			
Salaries and Expenses.....	318	306	291
Business Loans Administration	126	121	121
Disaster Loans.....	111	—	195
Office of the Inspector General	13	14	14
Surety Bond Guarantees Revolving Fund.....	3	3	3
Unrequested projects.....	39	90	—
Total, Discretionary budget authority	610	534	624
<i>Memorandum: Budget authority from enacted supplementals</i>	<i>929</i>	<i>446</i>	<i>—</i>
Total, Discretionary outlays	850	1,744	630
Total, Mandatory outlays	1,652	–556	–25
Total, Outlays	2,502	1,188	605
Credit activity			
Direct Loan Disbursements:			
Direct Disaster Loans.....	995	3,532	693
Direct Business Loans.....	19	18	5
Total, Direct loan disbursements	1,014	3,550	698
Guaranteed Loan Commitments:			
Guaranteed Business Loans	18,551	24,490	22,940
Total, Guaranteed loan commitments.....	18,551	24,490	22,940



SMALL BUSINESS ADMINISTRATION

Since 2001, the Administration:

- Provided record numbers and volumes of Government-guaranteed small-business loans (\$105 billion through 2006) and improved customer service, while reducing the per-unit cost of loans from \$3,418 in 2001 to \$461 in 2006;
- Provided \$13.7 billion of direct disaster loans to over 290,000 businesses, homeowners, and renters through 2006;
- Delivered tax relief averaging \$3,641 to 25 million small businesses in 2006; and
- Offered trade promotion services that help small businesses start exporting their products to destinations around the world.

The President's 2008 Budget:

- Provides \$28 billion in Government-backed small business loans for 2008;
- Helps small businesses get needed capital by eliminating the upfront borrower fee under the Section 504 Certified Development Company program;
- Proposes to make the Microloan program self-financing; and
- Continues operational improvements to accelerate the delivery of disaster loans, including deployment of an Internet-based application process for small business.

FOCUSING ON THE NATION'S PRIORITIES

Small businesses provide more than half of the Nation's private sector jobs. The Small Business Administration's (SBA's) mission is to promote small business development and entrepreneurship through business financing and technical assistance programs. SBA also works with other Federal agencies to reduce regulatory and paperwork burdens on small businesses.

In addition to SBA's programs, the Administration has taken important steps to assist small businesses by reducing taxes, encouraging investment, and removing regulatory and other obstacles to growth. As a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003, 25 million small businesses and their owners received tax relief averaging \$3,641 in 2006. The Administration also supports legislation enabling creation of Association Health Plans and other reforms that would reduce health care costs for small businesses and their employees.

Helping Small Businesses Grow

In order to meet the demand of the growing small business sector, the Budget supports \$28 billion in small business lending. SBA's 7(a) program will support \$17.5 billion in guaranteed loans for working capital and other business expenses. With the implementation of zero subsidy in 2005, the program has increased the number of borrowers 25 percent while no longer experiencing shut downs due to funding shortages. SBA's Section 504 loan program will support an additional \$7.5 billion in fixed-rate guaranteed loans for fixed asset purchases. SBA will also supplement the capital of Small Business Investment Companies with \$3 billion in guaranteed long-term loans for venture capital investments in small businesses.

To ensure that entrepreneurs have the skills and knowledge to operate their businesses, SBA and its 1,600 partners in the Small Business Development Center, Women's Business Center, and SCORE (formerly the Service Corps Of Retired Executives) programs will provide technical assistance, including training, counseling, mentoring, and information services, to more than four million existing and potential entrepreneurs in 2008. The Budget requests \$104 million for technical assistance programs in 2008.

The Budget also includes proposals to strengthen and ensure stability in three business loan programs. These initiatives include stabilizing SBA's Secondary Market program that enhances liquidity and financing terms by facilitating a secondary market for SBA guaranteed loans. The Budget proposes fee authority on new secondary market securities, that would enable the program to operate without cost to the taxpayer or require structural changes to the program. The 2008 Budget also proposes to eliminate the upfront borrower fee on the Section 504 Certified Development Company program. Borrowers will pay one of the lowest fee rates since 1996 for this program. The Administration has supported record numbers and volumes of loans to small, minority, and women-owned businesses through the 7(a) program; given the success of this program, the Administration is proposing reforms to enable the Microloan program to operate at zero subsidy.

Improving Disaster Response

The 2005 Gulf Coast hurricanes resulted in the largest disaster response in SBA's 53 year history. As a result of Hurricanes Katrina, Rita, and Wilma, SBA processed over 420,000 loan applications and approved \$10.8 billion in disaster loans, nearly three times the level for the second largest disaster, the California Northridge earthquake of 1994.

SBA's disaster response was slower than SBA's performance goals as a result of the catastrophic nature of this event, constraints caused by the agency's new computer system, and the immediate need for a substantial increase in temporary staff and facilities. While SBA has typically responded quickly to disaster victims' needs, the unprecedented 2005 hurricanes provided insight into operational challenges. Based on the lessons learned from this experience, the agency is implementing reforms that will significantly improve its future response to disasters, including a computer upgrade that has been tested to support a four-fold increase in concurrent user capacity.

In September 2006, SBA initiated the Accelerated Disaster Response Initiative to identify and implement process improvements to quicken the delivery of financial assistance. As a result, SBA reengineered its disaster loan processing operation to improve customer service and the disbursement of disaster loan funds. Based on customer feedback, the agency rolled out an integrated team model where customers are assigned to a case manager so they have a single point of contact that is accountable to help them through the complete loan review and disbursement process rather than being referred sequentially to different agency functional staff. SBA has also implemented numerous productivity metrics to track the status of applications and performance of employees. The metrics are monitored to identify areas that require management intervention. For example, loan modifications that averaged 2.5 months for completion in July 2006, now average just 2 weeks for completion, and continue to decline.

SBA has developed new models that can rapidly forecast loan volume and resource requirements (financial, human capital, and logistical) to better position the agency to respond to large scale disasters when they strike. Moreover, SBA is nearing completion of a plan to leverage its field network to improve local coordination and communication with citizens, lending institutions, and local authorities.

By 2008, SBA expects to offer an Internet-based electronic loan application process to assist businesses, homeowners, and renters applying for disaster loans. This complements the investment SBA made in the infrastructure of its disaster computer system.

Expanding Small Business Procurement Opportunities

Federal agencies procure more than \$300 billion in goods and services from the private sector annually. The Small Business Act sets a goal that at least 23 percent of the purchases are to be made from small businesses in order to ensure that small businesses have an opportunity to compete in the Federal marketplace.

SBA has undertaken several initiatives to create transparency in small business procurement and increase accountability for Federal agencies. SBA recently issued a regulation that revises small business certification requirements to ensure that contracts and procurement preferences are effectively provided to small and growing companies. Size recertification is now required every five years to allow for firm growth and ensure that larger companies graduate from the procurement preference programs, as intended. SBA is also working with other Federal agencies to reconcile and



FEMA; Jocelyn Augustino

An SBA customer service representative goes over information from local residents at the Disaster Recovery Center at the Habitat for Humanity Home Center.

correct procurement data discrepancies to ensure the integrity of small business procurement data. SBA also will take actions to strengthen the President's initiative on contract unbundling to provide more opportunities for small business contracts.

During 2007 and 2008, SBA is planning to develop an electronic Procurement Center Representative (e-PCR) system that, when fully implemented, will allow SBA to more effectively analyze individual Federal procurements and give agencies greater ability to identify small businesses that are capable of providing requested goods and services. SBA is also launching in 2007 a small business procurement scorecard modeled after the President's Management Agenda. The scorecard will more effectively track and evaluate agencies' achievement of small business procurement goals, by establishing criteria for agency success and "scoring" agencies against those criteria.

Small Business Administration
(In millions of dollars)

	2006 Actual	Estimate	
		2007	2008
Spending			
Discretionary Budget Authority:			
Salaries and Expenses.....	306	305	310
Business Loans Administration.....	121	121	135
Disaster Loans.....	—	—	—
Office of the Inspector General.....	14	14	15
Surety Bond Guarantees Revolving Fund.....	3	3	3
Unrequested projects.....	90		
Total, Discretionary budget authority.....	534	443	463
<i>Memorandum: Budget authority from enacted supplementals.....</i>	<i>1,700</i>	<i>—</i>	<i>—</i>
Total, Discretionary outlays.....	1,472	780	748
Total, Mandatory outlays.....	-567	-105	-23
Total, Outlays.....	905	675	725
Credit activity			
Direct Loan Disbursements:			
Direct Disaster Loans.....	3,667	1,110	693
Direct Business Loans.....	16	16	18
Total, Direct loan disbursements.....	3,683	1,126	711
Guaranteed Loan Disbursements:			
Guaranteed Business Loans.....	18,860	19,900	21,900
Total, Guaranteed loan disbursements.....	18,860	19,900	21,900



SMALL BUSINESS ADMINISTRATION

The President's 2009 Budget will:

- Provide \$28 billion in loan guarantees for small businesses;
- Target \$85 billion in Federal contracting dollars for small businesses;
- Focus and strengthen product delivery to less-served markets;
- Support disaster recovery through an improved disaster loan program; and
- Make critical investments in the Agency's human capital improvements and technology systems.

Promoting Small Business Development and Entrepreneurship

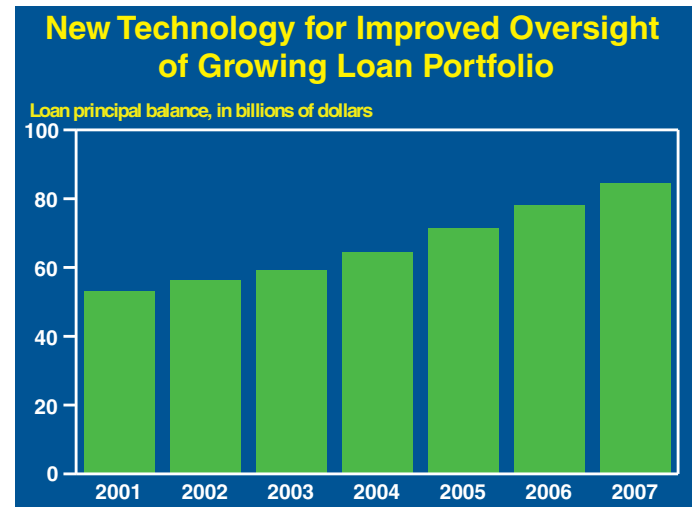
- *Enhances the Section 7(a) Guaranteed Loan Program.* \$17.5 billion in guaranteed loans for small businesses' working capital and other business expenses, a 29-percent increase over 2007 lending. The Small Business Administration (SBA) will continue to focus its attention on providing assistance to underserved markets.
- *Expands the Section 504 Guaranteed Loan Program.* \$7.5 billion in guaranteed debentures that allow Certified Development Companies to support infrastructure investments, a 19-percent increase over 2007 lending.
- *Supports contracting assistance.* Improves small business access to Federal prime and sub-contracting opportunities, including automating SBA's processes and systematically reviewing small business size standards.

Improving Disaster Assistance

- *Supports the Disaster Loan Program.* \$1.1 billion in 2009 direct loans, the normalized 10-year average loan volume, as well as program improvements initiated in the aftermath of the 2005 Gulf Coast hurricanes, including:
 - An electronic application capability for disaster victims, which will be operational in Summer 2008;
 - A re-engineered loan processing and approval system that has shortened the interval between loan application and disbursement; and
 - A recently completed Disaster Response Plan to ensure SBA is better prepared to respond to catastrophic events in the future.

Investing in SBA's Workforce and Technology Systems

- *Promotes core Agency investments.* Supports important investments in information technology systems and human capital initiatives, including:
 - Continued procurement of a modern loan management and accounting system to replace an aged mainframe system, to ensure good stewardship of a loan portfolio that has grown by 59 percent since 2001, to \$85 billion.
 - A training initiative focused on improving the core competencies of SBA staff.



Source: Small Business Administration

Major Savings and Reforms

- Operates SBA's Microloan program on a zero-subsidy cost basis, and eliminates non-credit technical assistance that is widely available through other SBA programs. As currently structured, the program is too expensive, costing the taxpayer 88 cents for every dollar loaned.

Since 2001, the Small Business Administration has:

- Provided \$114 billion in guaranteed loans to small businesses through two key programs that promote entrepreneurship.
- Provided \$15 billion in direct loans to homeowners, renters, and businesses that were victims of disasters.
- Facilitated greater access for small businesses to compete for Federal contracts, reaching nearly \$397 billion of Federal contracts through 2006.
- Assisted America's small businesses in a manner consistent with strengthening competition in free markets.

Small Business Administration
(Dollar amounts in millions)

	2007 Actual	Estimate	
		2008	2009
Spending			
Discretionary Budget Authority:			
Salaries and Expenses.....	322	345	328
Business Loans Administration.....	121	137	138
Disaster Loans.....	113	—	174
Office of the Inspector General.....	14	15	16
Surety Bond Guarantees Revolving Fund.....	3	3	2
Unrequested projects.....	—	69	—
504 Negative Subsidy receipts.....	—	—	—1
Total, Discretionary budget authority.....	573	569	657
Total, Discretionary outlays.....	1,272	878	835
Total, Mandatory outlays.....	—97	—348	—10
Total, Outlays.....	1,175	530	825
Credit activity			
Direct Loan Disbursements:			
Direct Disaster Loans.....	3,288	887	738
Direct Business Loans.....	16	19	22
Total, Direct loan disbursements.....	3,304	906	760
Guaranteed Loan Disbursements:			
Guaranteed Business Loans.....	18,572	20,915	22,803
	Number of Programs		2009 Savings
Major Savings, Discretionary			
Reductions.....	1		—17