

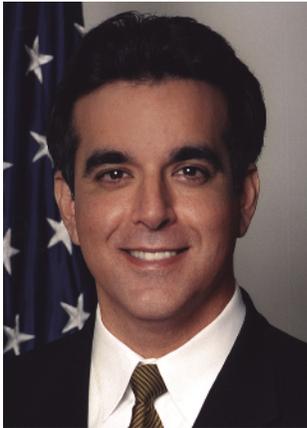
SMALL BUSINESS ADMINISTRATION

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

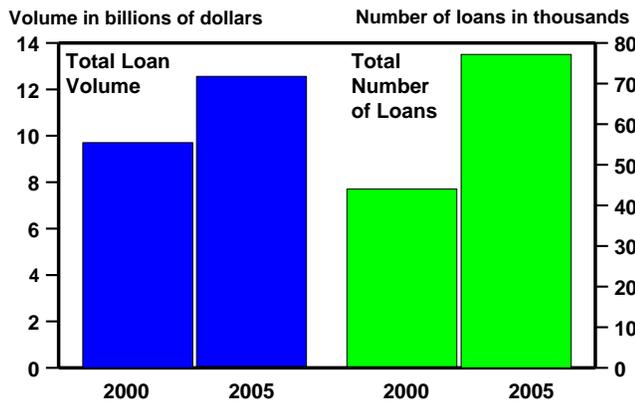
The Budget expands the Section 7(a) program to enable \$12.5 billion in guaranteed loan volume in 2005, a more than 25-percent increase from 2004. This will provide financing to entrepreneurs who could not obtain loans without a Government guarantee. Altogether, the 2005 Budget requests \$129 million 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.

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

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

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