



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

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BEFORE THE
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS
FY 2012 SBA BUDGET
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Chairman Graves, Ranking Member Velázquez, and members of the Committee. It's an honor to testify before you today. I look forward to working with each of you and this new Congress to ensure that America's small businesses can continue to grow and create jobs.

The SBA is a small agency but we have a big mission. We focus on providing access and opportunity through the three "Cs" of capital, contracts and counseling.

Last fiscal year, we helped over 50,000 small businesses get the capital they need to grow and hire.

We helped put about \$100 billion in federal contracts in the hands of small businesses. And we counseled more than a million entrepreneurs and small business owners across your districts and throughout the country.

Over the past two years, we provided taxpayers with a big bang for their buck. One example: Since credit markets froze in 2008, we supported more than \$42 billion in small business lending.¹ We still have work to do to help small businesses create the jobs we need, and the President's proposed FY12 budget for SBA is \$985 million.

Our top priority remains to support programs that put resources directly in the hands of small business owners.

At the same time, we will tighten our belts, streamline our processes, and eliminate duplication. This budget reflects some of your ideas to help us do just that. For example, we looked hard at our technical assistance programs.

As a result, we propose eliminating the PRIME program. With the work of our Microlenders and new efforts to recruit community-based lenders into our Community Advantage program, we can continue to provide technical assistance in a cost-effective way.

Also as part of our look at technical assistance programs, we reduced the request to support Small Business Development Centers by \$10 million. This was a tough choice, but we believe it is reasonable due to additional SBDC funding in the Small Business Jobs Act.

¹ For more information about SBA's credit programs, see the 2012 Budget's Credit Supplement.

In addition, we request a reduction in the core staffing level for our disaster program from 1,000 to 850. We currently have an additional 2,000 reservists as well as a very efficient and effective disaster operation that will preserve our level of readiness.

The two largest increases requested in this budget focus on programs that deliver direct help to small businesses.

First, we have reached the statutory limit for fees we can assess to borrowers and lenders for our business loans. We request \$132 million in additional subsidy above our FY 2010 enacted levels and carryover balances because the estimated losses are higher than proposed fee collections.

Second, unlike previous years, carryover funds to support administrative costs of the disaster loan program no longer substantially exist. An additional \$91 million above our FY 2010 enacted level the necessary funding to sustain our core disaster operations.

In addition, we request support for important efforts such as implementing the women-owned business contracting rule and for continued oversight and enforcement efforts to reduce waste, fraud and abuse in contracting programs.

Overall, this Administration is making it a priority to strengthen and fund SBA programs that put these budget resources directly into the hands of small business so they can grow and create jobs. And, we will continue to invest in oversight to preserve the integrity of these programs and to protect the interest of taxpayers.

I look forward to working with all of you to continue to ensure that the strongest engine of our economy – small businesses – are succeeding. Because as the President has said, when they succeed, America succeeds.



SMALL BUSINESS ADMINISTRATION

Funding Highlights:

- Provides \$985 million, a 45 percent decline from 2010 enacted funding, which included \$962 million in supplemental appropriations. Excluding supplemental funding, the 2012 request is \$161 million higher primarily due to increased estimated credit subsidy costs. Funding for administrative costs and Small Business Development Centers will go down as a result of fiscal restraints.
- Supports \$27 billion in loan guarantees for small businesses to enable them to invest, expand, and create jobs.
- Promotes impact investment in economically distressed regions.
- Helps innovative small businesses obtain early-stage financing.
- Encourages business development and economic growth through funding for technical assistance, including competitive grants to develop business leaders in underserved markets and to help businesses benefit from regional economic strategies.
- Continues implementation of Small Business Jobs Act initiatives, promoting technical assistance and small business exporting.
- Provides long-term disaster recovery loans for homeowners, renters, and businesses of all sizes.
- Strengthens lender and procurement program oversight to protect taxpayer dollars.
- Upgrades the Agency's financial management systems to improve the financial integrity and efficiency of SBA credit programs.

Small businesses play a vital role in job creation, economic recovery, global competitiveness, and the long-term strength of the Nation. The Small Business Administration's (SBA) mission is to help Americans start, build, and grow businesses. To deliver on this promise, the Administration proposes \$985 million, a substantial decline from 2010 enacted funding, which

included significant supplemental appropriations for fee reductions and credit programs. Small business loan guarantees are funded in 2012 at historical fee and guarantee levels, but reflect higher estimated loss rates. As part of the Government-wide effort to reduce spending, funding for administrative costs and Small Business Development Centers will decrease.

Invests in America's Businesses to Foster Economic Growth and Competitiveness

Spurs Job Creation by Enhancing Small Business Access to Credit. Small businesses are the engine of economic growth and job creation. That is why the Administration is taking a series of steps to improve the access to capital for small businesses. First, the Administration supports \$16.5 billion in 7(a) loan guarantees, which will help small businesses operate and expand. This includes an estimated \$14.5 billion in term loans and \$2 billion in revolving lines of credit; the latter are expected to support \$48 billion in total economic activity through draws and repayments over the life of the guarantee. The Administration also supports \$7.5 billion in guaranteed lending for commercial real estate development and heavy machinery purchases; \$3 billion in Small Business Investment Company (SBIC) debentures to support new businesses and new jobs through early-stage and mezzanine small business financing; and \$25 million in direct Microloans, for intermediaries to provide small loans to emerging entrepreneurs and other borrowers unable to receive credit elsewhere.

Promotes Impact Investment in Economically Distressed Regions, for Disadvantaged Groups, and in Sections of National Significance. Beginning in 2012, SBA will be leveraging the SBIC debenture program to support \$200 million annually over the next five years in impact investments that are "place-based" (located in or employing residents of economically distressed regions); "people-based" (owned or managed by women, veterans, or a member of a socially or economically disadvantaged group); or "sector-based" (sectors that have been identified as national priorities). Two other initiatives—the Small Loan Advantage and Community Advantage programs—will increase the number of SBA 7(a) loans going to small businesses and entrepreneurs in underserved communities.

Helps Innovative Small Businesses Obtain Early-Stage Financing. SBA will also create within the SBIC debenture program a new vehicle—the Innovation Fund—to address the capital

gap many start-ups face between "angel investor" financing and later-stage venture capital financing. Over each of the next five years, up to \$200 million in guarantees for matching funds will be available to investors aiming to support innovative companies seeking to ramp up their operations and create new jobs.

Helps Small Businesses Grow Smarter. Entrepreneurs can be found in every part of the Nation. However, some need assistance to develop their idea fully into a growing business and start hiring new employees. That is why the Administration includes \$15 million for competitive technical assistance grants to support SBA's Emerging Leaders initiative and to enhance small business participation in regional economic clusters. The Emerging Leaders initiative provides intensive technical assistance to companies that have high growth potential and are located in distressed economic areas, such as inner cities and Native American communities, and connects them to regional business networks to accelerate economic and job growth. SBA will also promote small business participation in regional economic clusters by awarding competitive grants to facilitate greater coordination of resources such as business counseling, training, and mentor-protégé partnerships.

Fully Funds and Reforms Long-Term Disaster Recovery. The Administration supports \$1.1 billion in direct loans, the normalized 10-year average, for homeowners and businesses whose property is damaged by natural disasters. The Administration also proposes \$167 million for disaster-loan administrative expenses. SBA will streamline staffing and operations to use administrative funds in the most effective and cost-efficient manner, which is expected to provide savings relative to operating levels in recent years.

Improves Cost-Effectiveness

Prioritizes Resources by Reducing Overlapping Funding and Extending Tax Breaks. In 2012, small businesses will continue to benefit

from technical assistance funded by the Small Business Jobs Act, which for the 2011 and 2012 period provided \$50 million to Small Business Development Centers (SBDCs) and \$60 million for grants to States and localities to help small businesses export. Given the availability of these funds and fiscal constraints, the Budget proposes modest reductions in the level of additional SBDC funding requested for 2012. The Act also provided a variety of other credit program expansions and tax changes that are significantly benefiting small businesses, and the Administration proposes to permanently extend the Act's provision eliminating all capital gains taxes on investments in small business stock in order to enhance the flow of capital to small businesses.

Helps Make the Guaranteed Loan Program Self-Sufficient. Due to the economic downturn and higher defaults on prior loans, SBA's guaranteed loan programs are recording in

2011 a \$3.7 billion increase in losses and subsidy costs on their outstanding loan portfolios, excluding interest, particularly on guarantees made between 2004 and 2008. To strengthen these programs' long-term economic foundation, the Administration will submit a legislative package to provide SBA the flexibility to adjust fees in these programs to enable them to be self-sustaining over time. These changes in the program's fee structure would become effective for loans originated in 2013.

Strengthens Core Agency Capabilities. The Administration provides the resources needed to upgrade the agency's financial management systems in order to improve the financial integrity and efficiency of its loan operations. SBA is also modifying its procurement strategy for the Loan Management and Accounting System to better ensure the system delivers results.

Small Business Administration
(In millions of dollars)

	Actual 2010	Estimate	
		2011	2012
Spending			
Discretionary Budget Authority:			
Salaries and Expenses	434		427
Business Loans:			
Loan Subsidy	83		215
Loan Administration	153		148
Subtotal, Business Loans	236		363
Disaster Loans:			
Loan Subsidy	2		—
Loan Administration	76		167
Subtotal, Disaster Loans.....	78		167
Office of the Inspector General.....	16		18
Office of Advocacy	—		9
Surety Bond Revolving Fund	1		—
Unrequested Projects	59		—
Total, Discretionary budget authority.....	824	993	985

Small Business Administration—Continued
(In millions of dollars)

	Actual 2010	Estimate	
		2011	2012
<i>Memorandum:</i>			
Budget authority from supplementals	962	—	—
Total, Discretionary outlays	1,453	1,504	1,212
Mandatory Outlays:			
Business Loan Subsidy Reestimates.....	4,472	4,530	—
Disaster Loan Subsidy Reestimates	211	192	—
Liquidating Credit Accounts	—8	—8	—7
Total, Mandatory outlays	4,675	4,714	—7
Total, Outlays	6,128	6,218	1,205
Credit activity			
Direct Loan Disbursements:			
Direct Disaster Loans.....	388	1,100	1,100
Direct Business Loans	32	37	33
Total, Direct loan disbursements.....	420	1,137	1,133
Guaranteed Loan Commitments:			
Guaranteed Business Loans.....	14,156	23,900	23,900
Guaranteed Disaster Loans	—	19	63
Total, Guaranteed loan commitments	14,156	23,919	23,963