STATEMENT OF
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SBA'S FISCAL YEAR 2006 BUDGET REQUEST

Madam Chair, Ranking Member Kerry, and members of the Committee, thank you for inviting me here today to discuss the President's Budget Request for the U.S. Small Business Administration (SBA) for Fiscal Year (FY) 2006.

As the Committee is aware, the past year was not without its share of challenges for the SBA. However, I am proud to say that last year was also one of great success for both the Administration and the Senate Small Business and Entrepreneurship Committee. We were faced with several critical issues, but we were able to work together and reach agreement in ways that proved beneficial to both America's small businesses and America's taxpayers.

In FY 2004, when the 7(a) loan program's demand exceeded its budget authority, the SBA and the Committee were able to come together, and with the assistance of our partners in the lending industry, to provide an additional $3 billion in lending for the 7(a) program, at no additional expense to the taxpayers. This allowed the Agency to lift the loan caps and operate the program at full capacity for the remainder of FY 2004. As a result, the Agency guaranteed a record $12.7 billion in small business loans in FY 2004.

At the beginning of Fiscal Year 2005, under the continuing resolution, the SBA began operating the 7(a) program at a zero subsidy rate. This "trial period" showed that a zero subsidy rate would not hinder access to and delivery of the 7(a) program. As a result, the SBA, the Committee, and the lending industry came together to craft legislation that allowed the program to operate without appropriations from Congress and ensure long term stability in the program.

This change significantly reduced the potential for future program disruptions and uncertainties, and allowed the Agency to reduce its budgetary needs while continuing to service America's small businesses.

I know some have expressed concern that the resumption of the 2002 fee levels would harm small businesses. However, since October 1, SBA has guaranteed over $4.4 billion in loans, an increase of over 11 percent over last year, and our lending partners have shown renewed support for the program. In addition, we are making more loans than ever to minorities, women and veterans.

At this time last year, the SBA's programs under the Small Business Act hadn't been reauthorized in over 4 years, and the Agency and the Committee seemed to be deadlocked in the negotiating process. However, persistence and diligence in pursuit of this goal of reauthorization finally produced a compromise in the form of a two-year SBA reauthorization that passed at the end of the 108th Congress.

Chair Snowe, I would like to compliment you and your staff on ensuring that this legislative compromise was included as part of the FY 2005 Omnibus Appropriations Act and for your support of SBA's efforts to become more efficient. This legislation allows the Agency to better serve more small businesses at less cost. Our FY 2006 budget submission reflects a continued commitment to that goal. Small business customers are taxpayers and understand the need to cut unnecessary costs and to keep up with an ever-changing market place.

Last year, I stressed to you that SBA's goal was to do more with less. I know that in Washington, D.C., it's difficult to imagine strongly supporting a program without continually increasing its budget, but SBA has proven that it can be done.

Since I became SBA Administrator in 2001, the Agency's annual appropriation has continued to decrease, yet SBA's programs have reached more and more American entrepreneurs year after year.

Last year was a great example of this kind of success at the SBA. The Agency provided $21.3 billion in loan guarantees and related financing for approximately 87,800 small businesses in FY 2004; these being record levels.

Out of that $21.3 billion, nearly one third went to women-owned and minority–owned businesses, which is more than any prior year; over $500 million went to African Americans; approximately $2.8 billion went to women; over $1.2 billion went to Hispanics; and over $115 million went to the Native American community. These figures represent the Administration's continued commitment to ensuring that the SBA's loan programs truly serve those small businesses that would otherwise have a difficult time accessing capital from the lending world. I am proud of the successes documented by these efforts.

Our administrative transformation efforts have also produced similar results. As this Committee knows, the Agency has been going through a transformation process designed to realign some of its dated infrastructure to meet the changing face of the 21st century business world. The needs of the SBA's customers remain paramount, and modernizing and realigning the Agency's human capital resources, operations, and organizational structure to match those needs is crucial to the Agency's continued relevance. Last year, the SBA began consolidating administrative servicing functions, allowing field office staff to work more closely with their clients in the small business community. The Agency's field offices are using technology, outreach, marketing, and customer relationship management to better meet small business needs. Through these modernization efforts, more SBA employees will be in more locations providing direct assistance to the small business community at a lower cost.

The SBA has also been effective in streamlining processes on the loan finance management side of the organization. Currently, over half of SBA's 7(a) loans are made through SBAExpress, which is processed electronically in a 36 hour timeframe. Centralization has reduced the 7(a) program guarantee and purchase liquidations timeline to an average of less than 45 days. The 504 program reduced loan application processing time to just two days, five times faster than the prior national average of ten business days. These dramatic improvements directly affect the

SBA's partner lenders, and ultimately, the Agency's customers, America's small business owners.

SBA's core infrastructure of technical assistance programs----SBDCs, SCORE, WBCs, and district offices----provided their services to record numbers of small businesses in FY 2004. SBA's Entrepreneurial Development programs provide much needed expertise and guidance to those entrepreneurs who have the drive and the idea, but may need a little help putting all of that into a working business plan.

The SBA also continued its mission to support the Administration in meeting its statutory commitment to provide a fair share of contracting dollars to small businesses. Small businesses received a record number of Federal contract dollars in FY 2003 - $65.5 billion – and exceeded the 23% government wide goal. I am also proud to say that Federal contracting dollars increased for women-owned businesses, 8(a), SDB, HUBZone and Service-disabled veteran-owned firms. In FY 2004, the SBA provided procurement assistance to over 37,000 small businesses.

The SBA has also been innovative in creating additional contracting opportunities for small businesses. For example, the Business Matchmaking program has given small businesses around the Nation a better opportunity to obtain government and private contracts by introducing them to procurement officials who, otherwise, would be very difficult to meet. The program's goal is stimulate jobs and growth for small businesses by taking advantage of opportunities that are normally confined to distinct geographical areas such as the Washington, DC area or a city where a major corporation is located. Since the program started two years ago, 23,000 one-on-one appointments between small business owners and Federal and corporate procurement officials have been conducted. The program has allowed small firms to learn about and bid on procurement opportunities in their areas of expertise. As a result, $29 million in Federal and private contracts have been awarded. More than 50 percent of the small businesses that have received contracts through this initiative are women-owned or minority-owned businesses.

SBA has been proactive in other areas of contracting as well. I am proud of the hard work done by my staff last year to implement the provisions of P.L. 108-183 in record time, providing contracting officers with a powerful tool to award contracts to those who have given so much to our country: service-disabled veterans.

Additionally, the Agency recently published a rule clarifying the responsibilities of prime contractors and giving contracting officers a tool to ensure that small business subcontractors are treated fairly when doing work on Federal contracts – an issue plaguing many small businesses. In December, the Agency also implemented a new policy that enables the Federal government to more accurately monitor contract dollars awarded to small business concerns that are subsequently purchased by large business concerns. The new policy requires a business to recertify itself as small when a change-of-name or novation agreement has been executed if the contract is to continue being counted as a small business contract.

In the past year, the SBA has moved to a completely automated electronic application process for both the 8(a) and Small Disadvantaged Business (SDB) Programs. As a result, the average time to process an 8(a) application has fallen from over 100 days to 45 days, and for SDB, the drop is

from 110 days to 40 days. Consequently, time and government resources are being used more efficiently, and at the same time better customer service is being given to small businesses.

While I am always more than pleased to talk about the active role that the Agency plays in the small business world, I really couldn't be more proud of the humanitarian assistance provided by SBA's Office of Disaster Assistance.

For years to come, people will remember the tremendous work the SBA did in 2004 to help disaster victims recover from the worst hurricane season on record. During FY 2004, the SBA Disaster Assistance program approved low-interest loans to over 28,500 homeowners and businesses grossing over $884 million. The supplemental appropriations allow the Agency to increase these numbers to over 100,000 loans for up to $4 billion. The direct public benefit of these SBA loans is that the businesses and local economies in disaster areas will be able to recover much more quickly than would have otherwise.

While we can enjoy the successes of the last year, we must continue to look towards the future with renewed dedication to serving America's small businesses in a financially responsible manner. In fact, the Disaster Assistance program has begun its transformation to electronic processing, simplifying the process for disaster victims and providing them with faster responses while reducing costs to administer the program.

President Bush understands the vital role that America's small businesses play in creating opportunities. He also recognizes that following times of economic downturn, small businesses play a leading role in economic recovery, and that it is small businesses that generate approximately two-thirds of all new private sector jobs. The President's plan for economic growth and job creation, along with his Small Business Agenda, has been successful in creating an environment in which entrepreneurship can flourish.

Health care continues to be one of the largest burdens our small businesses must bear. Time and again, as I meet with entrepreneurs around the nation, they talk to me about the cost of health insurance, and it is only getting worse. We also plan to make the President's tax proposals permanent to help small businesses and their employees keep more of what they earn and re-invest that money in their families and their businesses.

Finally, we want to help the President repair the Social Security system. Some people have claimed that the system is not in need of repair, that the crisis is fifty years away, but I believe it is our responsibility to those in their teens and twenties now to fix the program for their future rather than waiting until the problem becomes acute and unmanageable. I also believe that acting now is the best and fairest way to craft a solution that will not result in unfair costs on small business employers and employees or benefits cuts to those who have paid into the system in good faith. It is time for us to take this 800 pound gorilla out of the picture and remove its unwelcome presence from the plans and futures of small business owners and their employees who are paying the taxes that feed it.

Now, I'd like to lay out the specifics of our FY 2006 budget request. The SBA's total budget request is $592.9 million. This budget request provides for a strong, active SBA that can

effectively and efficiently meet the demands of its customers, America's small business entrepreneurs, while minimizing the cost to the American taxpayer. Through improved management and program reforms, the SBA will better serve America's small businesses.

The SBA requests $16.5 billion in lending authority for its 7(a) loan program – a $500 million increase over the enacted level for FY 2005 and almost a 25 percent increase over FY 2004 levels. The 7(a) subsidy rate for FY 2006 remains at zero, meaning the 7(a) program can guarantee $16.5 billion in small business loans without requiring a taxpayer subsidy.

This Budget Request will give SBA the authority to provide $5.5 billion in loans – also a $500 million increase over the FY 2005 enacted level – through its 504 Certified Development Company (CDC) program with no cost to the taxpayers. The 504 program, which was established to increase small businesses' access to real estate and other long-term fixed asset financing, continues to have job creation as an important program goal. The SBA is continuing to take steps to increase small businesses' access to 504 loans by increasing competition among CDCs and streamlining the application process.

SBA is asking for $3 billion in debenture authority for the Small Business Investment Company (SBIC) program. This program has continued to operate with expectations, providing benefits to recipient firms and within financial projections. The Administration's budget does not propose reinstating the SBIC Participating Securities program in 2006. In ten years of operations this program has resulted in reestimated losses of $2.7 billion, $1.7 billion of which are realized cash losses.

I am continuing my advocacy for greater efficiency and more and better quality of services to small businesses by consolidating delivery of services to small businesses through the Agency's core non-credit programs. As we discussed last year, SBA does not need restrictive line-items placed in its budget in order for the Agency to reach more small businesses.

The HUBZone program is an excellent example of this. In FY 2004 and FY 2005, Congress mandated that the SBA spend $2 million on the HUBZone program. Congress expanded access to this program in the recent SBA reauthorization bill. While SBA is not asking for a special line item, the SBA fully intends to support this program from within our Salaries and Expenses account. As you can see from the Agency's FY 2006 budget, SBA plans to provide $7.3 million in support for the HUBZone program, providing resources that keep the program strong without hampering our ability to meet challenges and serve all of our customers' needs.

Further, SBA is working to enhance the HUBZone program and its other government contracting programs through monitoring and assessing the effectiveness in reaching their target audience. Results of this analysis will help SBA better use its resources in reaching these businesses. Through the Business Matchmaking Initiative, SBA will put more small businesses in touch with procurement officers at all levels of government and those at large businesses. The one-on-one meetings facilitated through these events provide small business owners with an opportunity to speak directly with the decision makers.

SBA will also be working more closely with other Federal agencies, ensuring that their contracting practices maximize opportunities for small businesses while still providing a good deal for the taxpayer. Through ePCR and the ESRS systems, the SBA will have more tools to monitor prime and subcontracts to ensure small businesses are given adequate opportunities to contract with the Federal government.

The SBA also believes it can provide a full range of technical assistance more effectively by using its core national delivery programs. The Budget Request proposes that the Agency work through its primary infrastructure of 104 Women's Business Centers, 4 Veterans Outreach Centers, 389 SCORE chapters, 1163 SBDCs, and 68 district offices. They can reach more customers and offer higher levels of service to targeted constituencies and, by eliminating the duplication and bureaucracy that is inevitably created by a large number of smaller programs, they can do it far more effectively.

The Budget Request also includes continued funding for the Agency's Disaster Loan Program. The SBA works very closely with the Federal Emergency Management Agency to assist those small businesses and individuals directly affected by disasters such as tornadoes, floods and hurricanes. As you are aware, the SBA is a major part of the government's mechanism to help disaster victims get back on their feet.

As the Committee is well aware, some of the heaviest burdens borne by small businesses in America are the result of unnecessary federal regulation and red tape. That is why I am pleased that SBA's budget includes $9.1 million for the Office of Advocacy. This funding will allow Advocacy to fully staff its regional operations; to continue training Federal agencies on how to comply with the Regulatory Flexibility Act; and to research, document, and report to Congress on small business matters.

In FY 2006, the Office of Advocacy expects to save small business $5.6 billion in potential regulatory costs. Madam Chair, that is a substantial amount of savings for America's entrepreneurs.

Another crucial area where the SBA continues to make progress is in lender oversight. Since the Loan and Lender Monitoring System (L/LMS) became operational in 2003, it has provided the SBA and the Federal government with an exceptional level of oversight of SBA's guaranteed-loan program operations. L/LMS is a risk-based approach to oversight that provides the Agency with greater insight into SBA's lenders. It is more streamlined and efficient, allowing us to better deploy our resources to those areas where the SBA has the greatest exposure while being less intrusive to the lenders.

Specifically, L/LMS has improved SBA's lender oversight by directly increasing our loan portfolio and lender monitoring capability. The result is SBA's first database combining future credit risk analysis with past performance. L/LMS also enables the SBA to use historical business loan level data when assessing risk levels.

The impact of L/LMS has been profound. For example, in previous years, the Kansas City Review Branch and District Offices reviewed most of the SBA's lenders. Preferred 7(a) lenders were reviewed onsite every year and other lenders were reviewed once every three years. L/LMS now provides non-disruptive off-site monitoring capabilities that consider both the performance and credit risk of every loan the lender makes and funds.

The SBA is committed to continuously reassessing and improving the potential impact of L/LMS for the Agency and its customers. We are constantly evaluating new ways in which we can improve our own operations to meet the full potential of L/LMS.

All of us at the SBA are quite proud of the Agency's legacy of achievement. Many of today's most successful businesses received SBA assistance in their formative stages. Who knows which of tomorrow's industry leaders are today receiving their 7(a) or 504 loans, their government contracting opportunities, or their counseling through the SBA's programs and services?

However, we at the SBA cannot rest on our laurels. We must be forward thinking, anticipate changes in the marketplace, and adjust our programs based on the realities of today's small business environment.

The SBA's FY 2006 request is good for America's small businesses and American taxpayers. It offers an opportunity for us to work together with our Congressional partners to ensure that the SBA continues to assist small businesses. We ask for your support for our Budget Request. Thank you for the opportunity to appear here today. I am happy to answer your questions.