TESTIMONY OF

SMALL BUSINESS ADMINISTRATION

ADMINISTRATOR STEVE PRESTON

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Committee on Small Business

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Chairwoman Velazquez, Ranking Member Chabot, distinguished members of the Committee, thank you for inviting me here today to discuss the President's Fiscal Year (FY) 2009 budget request for the U.S. Small Business Administration (SBA).

President Bush's unwavering support for America's small business is evident. His leadership has ensured that small businesses play a vital role in our economic growth – adding more than 8.68 million new jobs since August 2003. By reducing the tax rates small business owners pay and increasing expensing tax provisions on investments, small businesses have more capital available to hire new workers and expand their businesses and inject new energy into our economy in the process.

Another important issue for small business is free trade. The pending agreement with Colombia is designed to level the playing field on tariffs for the benefit of U.S. exporters, as well as non-tariff barriers like intellectual property protections, excessive licensing and inspection requirements, burdensome paperwork and inconsistent customs procedures. It is important to note that in 2005 85% of U.S. companies exporting to Colombia are small and medium-sized enterprises (SME), with fewer than 500 employees, accounting for $1.7 billion in merchandise. Small and medium enterprises account for nearly 30 percent of the value of U.S. exports, whereas the SME percentage to Colombia is 35%. This Free Trade Agreement is an important step in breaking down tariffs and other barriers to trade that often shut out small firms from key emerging markets. Export growth accounted for over 40% of growth in the U.S. economy in 2007. As we look for ways to improve the uncertain economy, it is more important than ever for the United States to open new markets and knock down barriers for U.S. exports.

FY 2007 was a year of significant accomplishment for the Agency. By building on the accomplishments of FY 2007 and FY 08 this budget request reflects our leadership team's vision for the Agency's future. In FY 2009 SBA will continue to focus on our reform Agenda driven by clear outcomes, focusing on serving its customers effectively, enabling our employees, and operating an accountable organization. We will renew our focus on ensuring that its products and services are accessible to entrepreneurs in the most underserved markets – those in low to moderate income areas, HUBZones, and Empowerment Zone/Enterprise Communities.

- SBA's Fiscal Year 2009 budget request reflects the President's continued commitment to America's small businesses and the vital role they play in our economy. Enactment of this request will enable SBA to continue serving the small business community while supporting SBA's strong track record of fiscal responsibility. SBA's total budget request for FY 2009 is $657 million in new Budget Authority. This represents a 15 percent increase over the FY 2008 appropriation. From the standpoint of the Agency's operating budget, this request represents a 6 percent increase above FY 2008. To understand SBA's budget and compare it to previous years requires analysis of four distinct components: Operating expenses, disaster, resource partners, and earmarks.
    - Operating expenses: The request for FY09 operating expenses is 6 percent, or $22 million above FY08. Operating expenses represent funds to run all non-disaster aspects of the agency. This includes compensation and benefits, contracts, travel, supplies and other mandatory items like rent and workers comp. It also allows SBA to allocate substantial new dollars for technology and employee training.
    - Disaster: For FY09 the agency requests $160 million for disaster program administration and $14 million for disaster program subsidy, and anticipates an additional $150 million in subsidy carryover from 2008. In FY08, no money was requested for the disaster program – it was funded out of carryover balances from the previous year.
    - Resource partners: The request is flat to FY 07 levels and FY 08 request, although lower than the FY 08 appropriation.
    - Underserved Markets: This year we are requesting an additional $250,000 to support an innovative new program, the *SBA Emerging 200* initiative, which will provide capital access, business planning, government contracting and mentorship assistance in 10 inner city communities across the country.
    - Earmarks: No earmarks are proposed, versus $69 million in earmarks in the FY 2008 budget

Highlights of Major Accomplishments in FY 2007

Before I talk about our vision for FY 2009 I want to highlight some of the Agency's accomplishments in FY 2007 because they provide the backdrop to our plan for 2009, and the work we are continuing in 2008. FY 2007 was another year of significant accomplishment for the SBA not only in our core programs but in our overall management.

Capital Access: A total of 110,000 new 7(a) and 504 loans were approved – the most in the Agency's history. These loans represent $20.6 billion in new lending to America's small businesses. These small businesses were able to start, expand or grow, through access to capital that likely would not have been available without the SBA's involvement. The SBA contracted with the Urban Institute to assess its small business lending programs. They also found that SBA programs are more effective than conventional lenders in reaching minorities, women and start-ups. The findings support the conclusion that SBA's programs are, in fact, supporting small businesses that cannot obtain "credit elsewhere." SBA is piloting its Rural Lender Advantage product to improve penetration in community banks and undertaking other initiatives to expand capital availability in underserved markets.

Disaster Assistance: The Office of Disaster Assistance completed a fundamental reengineering of its disaster loan processing operation that has dramatically shortened response times, improved quality of service and increased borrower support for all disaster victims. Processing backlogs were eliminated and feedback on the new approach has been universally positive. The Agency completed a Disaster Recovery Plan that describes the process that has been established to ensure effective Agency-wide operations in the event of another catastrophic disaster similar in magnitude to Hurricanes Katrina, Rita and Wilma.

Government Contracting/Business Development: During FY 2007 SBA worked with Federal agencies to improve the accuracy and reliability of contracting data by identifying database miscoding and anomalies. In FY 2006 (the most recent fiscal year for which data is available), Federal agencies reported that a total of approximately $78 billion Federal prime contract dollars went to small businesses. Contracts to service-disabled veterans increased by 50% over FY 2005, from $2 billion to $3 billion; contracts to women-owned small businesses increased by $1.5 billion; contracts to Small Disadvantaged Businesses companies rose by $2 billion; and contracts to HUBZone companies were up $1 billion. This shows record levels of prime contract dollars for all programs across the board. The Agency has also undertaken extensive measures to simplify 8(a) certifications and reviews, train our field employees and automate their paperwork to increase and improve their outreach to small businesses, and redirect responsibilities to PCRs to focus more heavily on helping direct contracts to small businesses.

Entrepreneurial Development: In FY 2007 1.1 million small businesses and entrepreneurs utilized the expertise of the SBA's resource partners including Small Business Development Centers, Women's Business Centers and SCORE. The Agency leverages its resource partner network for training and counseling, business plan development, marketing strategies, implementing new technologies, accessing capital, winning government contracts, and many other undertakings vital to the success of a small business. During FY 2007 more than 240,000 small businesses took advantage of the SBA's free, online business courses offered through the Small Business Training Network (www.sba.gov/training). This year the

Agency introduced an interactive Small Business Readiness Assessment tool to help individuals prepare for entrepreneurship.

Management: FY 2007 was a landmark year for the SBA in the area of financial management. As a major success in our Reform Agenda to ensure good stewardship of the government's resources, the Agency received an unqualified independent audit opinion with no material weaknesses – the first time since FY 2000. This result reflects the improvements the Agency has made in the quality of its financial processes, data integrity, and financial statements. By the end of FY 2007, the SBA made improvements in all nine major management challenges identified by the Inspector General.

In both the 2004 and 2006 Office of Personnel Management employee survey, SBA ranked 30th out of 30 in the Best Places to Work ranking provided by Partnership for Public Service. In 2002, SBA placed 24th. Thanks to our Reform Agenda, employees clearly see change. This year's survey results were remarkable:

- Positive scores improved in 38 out of 39 categories.
- Overall, job satisfaction increased 9 percent.
- Satisfaction with whether employees have the right skills, can use their skills, and improve their skills, increased 11 to 13 percent.
- Satisfaction with how well leadership communicates goals, priorities, and other information improved 11 to 16 percent.
- The respect employees have for senior leaders increased over 21 percent.

The strongest results appeared in areas where we have driven the greatest change. Employees are living the changes, believing that progress will continue– and are energized by it.

Highlights of the Budget Request

The resources requested will support a total of $28 billion in small business financing, which represents a 37% increase over business lending for FY 2007, through the 7(a), 504, SBIC, and Microloan programs. For its flagship 7(a) program the Agency requests $17.5 billion, a 30% increase over the FY 2007 lending levels. The Agency also requests $7.5 billion for the 504 program, a 19% increase over the estimate loan level in FY 2007. Finally, $3 billion is requested for the SBIC Debenture program.

The FY 2009 Budget request supports other critical activities including:

- A Disaster loan volume of $1.061 billion in direct lending, the normalized ten-year average;
- Targeting a total of $85 billion in prime Federal contracting dollars to be awarded to small businesses in FY 2009;
- Investment in the Agency's human capital through continuation of the successful training and development programs, including "SBA University," ;
- Mentoring programs, succession planning, and proactive recruitment of highly qualified staff;

- Continuation of the modernization of the Agency's loan management and accounting system;
- Management of *Business Gateway* to provide a single site resource for small businesses and entrepreneurs to access information they need from their government;
- Strengthening and upgrading the Agency's information technology infrastructure to provide an effective, robust, secure, and high availability information systems to support the Agency's operations; and
- The SBA's FY 2009 budget request will support 2,123 FTEs from the Salaries and Expenses budget, which is a steady staffing level planned to be reached by the end of FY 2008.

Vision for the Agency's Future

As part of developing a vision to address major challenges and opportunities, in mid-2006 SBA listened to our partners and other stakeholders, our employees, and most importantly, customers who used our services. We also dug deep into operational information to get a clearer picture of what was happening. And over time, we instituted a robust system of performance measures, analyzed data on our markets, and began disciplined reviews of how we were doing, where the issues – and opportunities – really were, and what worked and what did not.

The next step to effective change was to bring a vision to the Agency. The SBA's vision for FY 2009 is to build on the important progress currently under way in three primary areas:

- Underserved markets;
- Disaster assistance; and
- A Reform Agenda to improve the effectiveness of the Agency in meeting the needs of America's entrepreneurs.

Underserved Markets

One of SBA's major initiatives is to accelerate entrepreneurial success through focused delivery of SBA products and services to underserved communities. Supporting small business formation and growth in underserved markets will energize the local economy, create jobs and bring investment to drive a sustainable economic base. The overall initiative will consist of a combination of program level and local level activities designed to serve major underserved segments in both inner-city and rural environments, and extend Agency support through each stage of entrepreneurial growth.

More specifically, the SBA is launching or redesigning lending products to reach small businesses in our Underserved Markets, expanding partnerships with other service organizations with a complimentary mission, and rolling out targeted development programs to reach these entrepreneurs. One example is The *SBA Emerging 200* initiative provides advanced technical assistance focused on business growth to at least 200 emerging inner city companies across 10 cities. The SBA would provide training grant(s) (totaling $250K a year) to organizations that will deliver a combination of capital access, business

planning, government contracting and mentorship assistance to emerging companies from locally underserved areas.

Disaster Assistance

The SBA has completed a major process and policy redesign to ensure we respond more rapidly in assisting small businesses and homeowners seeking financial assistance after a disaster. The Agency expects to continue its progress with the planned introduction of an Electronic Loan Application (ELA) in the summer of 2008. In addition, we are establishing an Executive office of Disaster Strategic Planning and Operations to ensure the smooth continuation of Disaster operations for direct and guarantee lending; contracting assistance; and technical assistance.

The Accelerated Disaster Response initiative focused on improving the disaster victim's end-to-end experience from disaster loan application, through approval and closing, to final disbursement of funds. The driving principles are speed of response, customer support and quality. Multiple teams worked on identifying and implementing reforms and improvements to our processes.

The SBA instituted a communications plan in which the regional and district offices work in conjunction with the Office of Disaster Assistance to help disseminate disaster information throughout the declared disaster areas. To better accomplish this task, the Agency prepared a disaster tool kit to be used by regional and district offices. The regional and district offices are instrumental in providing valuable community outreach efforts throughout their local areas.

We plan to offer applicants the ease of applying electronically for disaster loans through the Electronic Loan Application (ELA) after its expected completion in the summer of 2008. The ELA, combined with upgrades on the Disaster Credit Management System (DCMS), position the SBA to meet the needs of Disaster Assistance applicants more quickly while using fewer resources.

The SBA also issued a Disaster Recovery Plan to meet future challenges depending on the magnitude of the disaster (levels I – IV). The plan encompasses a disaster recovery framework that includes the disaster assistance process, operational support, roles and responsibilities, business process reengineering, forecasting and modeling, surging to accommodate needs, simulations, a communications plan, and ongoing initiatives.

The Disaster Recovery Plan also supports the following outcomes:

- Support of long-term economic recovery by providing capital to help disaster victims rebuild and withstand economic injury;
- Faster decisions on disaster loan applications, closing and disbursement;
- A customer-focused, transparent, outcome-driven model of performance;
- A strong, standing, Core Capability supplemented by Surge Capacity; and

- Processes coordinated with federal guidance and protocols for disaster recovery (e.g., the National Response Plan (NRP) and the National Incident Management System (NIMS), where applicable).

The SBA's Reform Agenda

What we hear from our partners and customers is that secondary factors are often as important as the primary product or service that we offer – factors like ease of use, timeliness and customer support. There is a fundamental connection between the effectiveness of our programs and the way we deliver them.

Through the Agency's Reform Agenda, the SBA is driving operational improvements by becoming an organization that is:

- More customer focused;
- Enabling employees and improving the SBA's work environment;
- Ensuring stewardship of the government's resources through accountability, efficiency, and transparency; and
- Outcomes driven.

Becoming More Customer-Focused

We have a renewed focus across the SBA to drive improvements in customer service and simplify Agency programs to make them more accessible to the public, small businesses, and resource partners.

The SBA executes its mission through a nationwide customer-oriented network of:

- Small Business Development Centers in all 50 states and U.S. territories, with more than 950 locations across the country;
- SCORE chapters in over 800 locations;
- A national network of community-based Women's Business Centers to help women start and run successful businesses;
- SBA district offices in every state;
- Eight disaster loan and business servicing centers;
- SBA Trade Specialists located at U.S. Export Assistance Centers in major metropolitan areas throughout the United States; and
- Six Area government contracting offices with procurement center representatives (PCRs) covering over 300 buying activities.

In addition, thousands of our banks and private equity firms extend capital through our programs and dozens of agencies participate in our programs to expand Federal contracts to small businesses. The SBA is expanding its online presence to meet the evolving demands of its customer base. In 2007 the SBA introduced the Small Business Primer: Strategies for Success, a free, online training course to assist individuals who are considering entrepreneurship or are in its early stages. SCORE will increase capacity and efficiency by developing a national call center and workshop registration center. The call center will

remove the routine administrative burden of telephone answering and workshop registration from the volunteers. This call center model will enable SCORE volunteers to dedicate more of their time to provide additional client services at the chapter level. SBA has provided an additional online course to teach small businesses how to do business with the federal government.

To increase access to capital for small business, we have developed a series of initiatives aimed at making our programs easier for lenders to use, with a particular emphasis on assisting underserved markets and veteran communities. To enhance customer service, the SBA re-engineered processes in guaranty purchasing centers, focusing on strategies to improve the centers, enhance workflow, redesign processes, and standardize procedures. Performance measures and scorecard metrics are being established to promote accountability and transparency. A customer help function is being incorporated into the operation to provide better service and communication. In addition, a service outreach function has been created to work directly with larger lenders and with smaller lenders in partnership with the district offices to continually improve the quality of their interactions with the service centers and thus shorten cycle times.

We recognize the need for SBA to better assist small businesses to compete for government contracts. Additional procurement center representatives are being hired to ensure that small businesses are awarded their fair share of government procurement. We have also developed a "Quick Market Search" tool, an Internet engine linked to the Central Contractor Registration System (CCR).

The Agency created a Procurement Scorecard which measures how successful Federal departments and agencies are in meeting their small business contracting goals. This public scorecard will provide improved measurement and transparency to better allow small businesses to evaluate how the contracting offices are fulfilling the government's procurement obligations.

The SBA also plans to publish a scorecard of its resource partner programs. The SBA leverages its Entrepreneurial Development Management Information System (EDMIS), to capture and analyze program impacts. The higher-quality information allows the Office of Entrepreneurial Development to better manage its programs to increase effectiveness and efficiency, and by publishing these metrics we will also bring transparency to the programs.

The Business Gateway portal continues to improve and expand upon its proven formula of single source information for businesses hungry for quick and easy access to government-wide compliance, regulatory and policy information.

Enabling Employees & Improving SBA's Work Environment

Employees are essential to the success of any service organization. As I mentioned previously, we have made great strides in 2007 that we plan to build upon. SBA will continue to build upon the success of SBA University, and to respond to survey results that showed that employees have a continuing desire for skills development. The budget request includes $1.15 million for this centralized training.

The budget request also includes $200 thousand for the Office of Business Operations to satisfy the requirements set forth in OMB policy for developing and managing the acquisition workforce. Under this directive, affected workforce members must meet mandatory and periodic discretionary training requirements.

Included in the budget request is an additional $130 thousand for a Government Contracting/Business Development training initiative. The training initiative will involve district office field liaisons and Government Contracting Area Office staff and focus on program administration and delivery with special emphasis on strategies to increase prime and subcontract awards. These conferences are expected to expand and increase understanding of the program and, more importantly, to begin to build a public/private sector network that will promote and support the WOSB, SDVOSB and HUBZone program within local communities.

The budget request includes an increase for the Office of the General Counsel of $150 thousand for training. The General Counsel has conducted an internal assessment of its operations. This review took into account an in-house survey, discussions with field personnel including regional administrators and district directors, and consideration of the comments and recommendations of Administrator's Field Advisory Committee. This review suggested that a coordinated training program for the legal staff is a necessity. If the General Counsel is to meet or exceed its strategic goals and long term objectives, it is essential that an attorney training event take place in FY 2009.

Ensuring Stewardship of Taxpayer's funds though Accountability, Efficiency, and Transparency

During this past year the Agency created a Performance Management Office to focus on internal operations and establish an agency-wide Performance Management Framework to better align Agency mission, funding and priorities. That office has developed enhanced monthly performance management reports to closely track Agency operations and priorities on a monthly basis.

We recognize that government agencies need to become more efficient even while shouldering increased responsibility. Through careful analysis of its programs and operations, the Agency has demonstrated its ability to expand its services to America's small businesses while reducing total expenditures. At the same time we have been cognizant of our responsibility to manage our expanding loan portfolio.

Two primary principles govern the SBA's loan portfolio management practices — operational excellence and risk management. The size of the Agency's $85 billion loan portfolio mandates that it be prudently managed to ensure that small businesses and disaster victims are served and that the taxpayer is protected from losses. Actions the SBA has already initiated in the area of operational excellence include the following:

- *Centralizing operations* —In 2007 the SBA completed the centralization of all remaining 7(a) loan approval, and 504 and Disaster loan liquidation activities, resulting in streamlined financial assistance functions. Other benefits of this centralization include

cost reductions resulting from specialization of activity by SBA staff, and greater consistency of policy interpretation and operational practices.

- *Operational assessments and Business Process Re-Engineering* — The SBA is completing and expanding operational reviews and business process re-engineering activities of its loan operations centers to identify opportunities for streamlining and process improvements.

- *Accelerating the liquidation process* — New 7(a) and 504 liquidation regulations require lenders to liquidate loans before submitting them to the SBA to honor the guarantee. The new regulations also position the Agency to resume an asset sale program for defaulted assets.

The Agency also places increased importance on risk management as part of the Agency's operational focus. Credit scores, combined with SBA lenders' current and historical performance, have allowed the Agency to assign risk ratings to lenders. Such ratings provide both an assessment and a monitoring tool for the most active SBA lenders, and are the primary basis by which lower volume lenders are evaluated.

In addition, the Office of Credit Risk Management improved SBA's lender portal to allow lenders to monitor their own portfolio performance and proactively address negative performance trends. This reduces the need for SBA action and potentially reduces loan program costs.

Thanks to its authority to collect fees for reviews and examinations from 7(a) lenders, the SBA increased its on-site lender reviews and examinations from 55 reviews in 2006 to 80 reviews in 2007 and plans to review over 200 in FY 2008. With the fee authority in place, the Agency expects to substantially increase the number of lenders reviewed and thereby reduce overall SBA portfolio risk. In FY 2009, the SBA will again increase the number of on-site lender reviews performed, with the objective of reviewing all large and mid-size lenders and Certified Development Companies on at least a bi-annual basis.

We are also expanding its monitoring and analysis of the disaster loan portfolio. This objective will be accomplished through the development of a system similar to the Agency's current 7(a) and 504 Loan/Lender Monitoring System. The Agency has begun the process to contract for this service, with full implementation planned before the end of FY 2009.

Modernization of our business loan system is a major Agency-wide undertaking that began in FY 2006. The Agency has finalized the business vision, developed the business case, developed the project management plan, and drafted the acquisition strategy. For FY 2009 the SBA is requesting $7.65 million in regular salaries and expenses funding for this initiative (to be complemented by a similar amount of disaster funding) for this project. Considering the nature and complexity of the project and underlying uncertainties of the acquisition process, it is requested that the funds appropriated for the project in FY 2009 be available for two-years.

We are also asking that a legislative change be made to strengthen and ensure stability in the SBA's secondary market program that enhances liquidity and financing terms by facilitating a secondary market for SBA guaranteed loans. This change will enable the

program to operate without cost to the taxpayer or structural changes that we encourage Congress to pass as quickly as possible.

Outcomes Driven

To fulfill its mission, it is critical that the SBA understand how to drive outcomes aligned with that mission. The Agency is proud of its work on improving program performance through budget and performance integration which has allowed it to maintain the President's Management Agenda's (PMA) highest green rating in both status and progress since FY 2004.

The SBA has put heavy emphasis on clearly defining the outcomes that it is targeting and ensuring that its programs, processes and policies are aligned in achieving them. Results of the Urban Institute studies will help the Agency in adjusting its programs to improve their reach and value to America's entrepreneurs. They will also be used to establish an initial baseline for evaluating the outcomes achieved through SBA lending.

Conclusion

As you can see, it has been an eventful and productive 18 months since I first came to SBA, and the next year is shaping up to continue to build upon the advancements the Agency has already made. This is a good budget for America's small businesses, America's taxpayers and America's economy. I look forward to working with you to enact this budget and to help entrepreneurs start, build and grow their small businesses as they infuse new life into America's economy. Again, thank you for inviting me here today, and I will be glad to answer any questions.