State Small Business Credit Initiative

FY 2016
President's Budget

February 2, 2015

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Section 1 – Purpose

1A – Mission Statement

To increase the availability of credit for small businesses and to generate jobs and other economic development benefits for states, Treasury has implemented the State Small Business Credit Initiative (SSBCI).

1.1 – Resource Detail Table

Dollars in Thousands

State Small Business Credit Initiative	FY 2014		FY 2015		FY 2016		FY 2015 to FY 2016			
Budgetary Resources	Actual		Estimated		Estimated		$ Change		% Change	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:										
Recovery from Prior Years	0	1,781	0	2,020	0	1,000	0	(1,020)	0.00%	-50.50%
Unobligated Balances from Prior Years	0	25,376	0	19,323	0	14,118	0	(5,205)	0.00%	-26.94%
Subtotal Budgetary Resources	**0**	**$27,157**	**0**	**$21,343**	**0**	**$15,118**	**0**	**(6,225)**	**0.00%**	**-29.17%**
Other Resources:										
SSBCI Program	0	$103	0	$0	0	$0	0	0	0.00%	0.00%
SSBCI Administration	10	$7,731	11	$7,225	9	$6,086	(2)	(1,139)	-18.18%	-15.76%
Subtotal Other Resources	**10**	**$7,834**	**11**	**$7,225**	**9**	**$6,086**	**(2)**	**1,139**	**-18.18%**	**-15.76%**
Net Results	**10**	**$19,323**	**11**	**$14,118**	**9**	**$9,032**	**(2)**	**5,086**	**-18.18%**	**-36.02%**

1B – Vision, Priorities and Context

The SSBCI funds new and existing state programs that support lending to and investment in small businesses in order to stimulate economic growth and new jobs. Under the SSBCI, participating states use the federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy but are not getting the loans they need to expand and create jobs.

The Small Business Jobs Act of 2010 (the Act) authorized and appropriated $1.5 billion for SSBCI through FY 2017. Due to the success of SSBCI, the FY 2016 President's Budget proposes a new authorization of $1.5 billion to build on the momentum of the program's first round, strengthen the Federal government's relationships with state economic development agencies, and provide capital to America's diverse community of entrepreneurs. The new authorization would run from FY 2016 through FY 2022.

The SSBCI allows states to build on successful models for state small business lending and investment programs, including capital access programs (CAPs), collateral support programs, loan guarantee programs, loan participation programs, and venture capital programs. States are required to demonstrate a reasonable expectation that a minimum of $10 in new private lending will result from every $1 in federal funding over the life of the program. The SSBCI aligns with Treasury's strategic goal to promote domestic economic growth and stability while continuing reforms of the financial system.

Priorities:

- To provide direct funding support to states for use in programs designed to increase access to credit for small businesses.
- To support state CAPs and other credit support programs that support lending to and investment in small businesses and small manufacturers.
- To monitor the deployment of SSBCI funds among approved state programs and to ensure adherence to all Treasury compliance standards.
- To promote best practices in program design, operations, and marketing among state-run programs.
- To provide technical assistance to states as they implement these programs and deploy funds to eligible small businesses.

SSBCI Program Activities

On September 27, 2010, President Obama signed into law the Small Business Jobs Act of 2010 (the Act). Section 3003 of the Act authorized and directed the Secretary of Treasury to establish a seven-year SSBCI, which was funded with $1.5 billion to support state programs that support lending to small businesses and small manufacturers. Since the passage of the Act, the SSBCI has had a positive impact on small business access to capital and local economies around the nation, helping over 8,500 businesses create or retain over 95,000 jobs as reported by the small businesses who received the loans and investments[1].

Proposal for Extension

The FY 2016 President's Budget proposes a new authorization of the SSBCI to build on the momentum of the program's first round of funding, strengthen the Federal government's relationships with state economic development agencies, and provide capital to America's diverse community of entrepreneurs. The budget proposes extending SSBCI with a new authorization of $1.5 billion awarded in two allocations: $1 billion awarded on a competitive basis to states best able to target local market needs, promote inclusion, attract private capital for start-up and scale-up businesses, strengthen regional entrepreneurial ecosystems, and evaluate results; and $500 million awarded by a need-based formula.

Program Activity to Date

Under the SSBCI, states were offered the opportunity to apply for federal funds for programs that support private lending and investing to extend greater credit to small businesses. SSBCI support helps borrowers address a credit weakness due to devaluation of collateral, a short track record, or short-term reduction in sales or cash flow. The SSBCI allows states to build upon existing, successful state-level small business lending and investing programs, such as Capital Access Programs (CAPs), collateral support programs, loan participation programs, loan guarantee programs, and state-sponsored venture capital programs. If a state did not have an existing small business program, the state could establish one in order to access this funding.

[1] Source for transaction and job creation and retention figures is the annual report data submitted by states for the periods ending December 31, 2011, 2012, and 2013.

By the end of FY 2014, 56 of the 57 program participants reported using SSBCI funds to support loans or investments in businesses using disbursed funds. As of September 30, 2014, Treasury had outlayed to states approximately $1.14 billion or 79 percent of the total funds available for disbursement. Treasury expects states to qualify to receive most of the remaining funds in FY 2015 and FY 2016. States report transaction details to Treasury on an annual basis. Data through December 2013, the first 32 months of activity, when states expended $590 million in SSBCI funds to leverage $4.1 billion in private financing, suggest the following key findings:

- **SSBCI funds have already supported thousands of loans and investments that might not otherwise have been made to small businesses in a wide range of sectors.** SSBCI financing reached small businesses in industries ranging from retail trade to manufacturing, hospitality, and many types of services. About two-thirds of all loans or investments supported by SSBCI were for less than $100,000, and the average loan or investment size was $356,000.
- **SSBCI funds have helped create or save more than 95,000 American jobs.** The small business owners who received financing expect that the loans and investments they received will create over 32,000 jobs within two years and help retain more than 63,000 jobs that were at risk of loss.
- **SSBCI funds support businesses with the highest potential to create new jobs.** More than half of all SSBCI loans or investments went to young businesses less than five years old, which economic research by the Kauffman Foundation suggests are more likely to create new jobs than similarly-sized businesses that are farther along in their development. Nearly 80 percent of SSBCI loans and investments went to businesses with 10 or fewer employees.
- **Forty-two (42) percent of SSBCI loans and investments were made to businesses in low- and moderate-income communities with incomes at or below 80 percent of the area median income.** SSBCI has been effective in supporting small businesses in areas that were hit hardest by the recession and where the need is greatest.
- **Through 2013, SSBCI operations have already generated $6.95 in new small business lending or investing for every $1 of federal support.** States expect private sector leverage to increase to 10 to 1 before the program concludes.
- **SSBCI has helped create over 82 new small business support programs, which account for approximately 50 percent of the programs currently disbursing SSBCI funds.** Through the availability of SSBCI funds, a new infrastructure of state-operated credit support programs has been created across the country.

States were eligible to apply for funds that were allocated by formula in the Act based on each state’s decline in employment relative to the overall national decline. Pursuant to the Act, funds were available to all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of Northern Mariana Islands, Guam, American Samoa, and the United States Virgin Islands. In the event a state chose not to participate in SSBCI, municipalities in that state could apply for the state’s allocation. Ultimately, 47 of 50 states applied to participate in SSBCI (North Dakota, Wyoming, and Alaska did not participate).
Through FY 2013, Treasury approved a total of 57 allocations to 47 states, the District of Columbia, five U.S. territories, and four municipalities (or consortia of municipalities) from Alaska, North Dakota, and Wyoming. Once approved, all funding for each respective entity is allocated. Treasury transfers funds to participating states in three disbursements (outlays). Outlays occur as the participating states expend, obligate, or transfer the funds and submit

disbursement requests to Treasury. In addition, less than three percent of the appropriation has been allocated to Treasury administrative expenses, which also covers administrative expenses of the Office of Inspector General dedicated to auditing the use of SSBCI funds. Treasury will expend administrative costs over the seven-year life of the program.

FY 2016 Program Activity

In FY 2016, the SSBCI will continue to monitor and provide technical assistance to states. Treasury staff and contractors will provide services that include training and support for program design, operations, and outreach to financial institutions.

Treasury proposes a new SSBCI authorization of $1.5 billion (Round 2). Round 2 would be awarded in two parts: $1 billion awarded on a competitive basis to states for applications that demonstrate the greatest potential impact and $500 million allocated to states according to a need-based formula. Potential categories being considered for competitive scoring include a state's ability to target local market needs, promote inclusion, attract private capital for start-up and scale-up businesses, strengthen regional entrepreneurial ecosystems, and evaluate results among other factors. During FY 2016, SSBCI would administer both the formula and competitive award process with some awards made in FY 2016 and the remainder in FY 2017. Treasury estimates outlays to states of $210 million in FY 2016 with most of the remaining outlays under Round 2 occurring in FY 2017 and FY 2018.

Outlays to Participating States for SSBCI Round 1 and 2*

	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimated	FY 2016 Estimated	FY 2017 Estimated	FY 2018 Estimated	Total
Round 1 Outlays	366	187	364	229	221	74	-	-	**1,440**
Round 2 Outlays	-	-	-	-	-	210	730	520	**1,460**
Total	**366**	**187**	**364**	**229**	**221**	**284**	**730**	**520**	**2,900**

*Data does not include outlays for Treasury administrative expenses.

Office of Inspector General (OIG) Activities

In FY 2016 the OIG will continue to provide audit and investigative oversight of SSBCI. The authorizing legislation directs the OIG to audit the use of SSBCI funds by participating states so that Treasury can recoup any recklessly or intentionally misused funds identified by such audits.

The FY 2016 budget request will support 15 OIG employees through a reimbursable agreement and allow the OIG to augment its resources with contractors, as needed, to perform a significant number of audits of the use of SSBCI funds. The OIG plans to audit both how the states are carrying out their oversight responsibilities and whether the institutions and businesses participating in the state programs funded by SSBCI are in compliance with loan-use restrictions and requirements. Because many states did not draw on all of their allocated funds by the two-year anniversary of their Allocation Agreements, Treasury extended the timeframe for the disbursement of funds until FY 2015. The OIG is expecting to continue to perform a significant number of audits during FY 2016 as states increase their use of funds and request additional disbursements from Treasury for Round 1, and if adopted, for Round 2.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

State Small Business Credit Initiative	FTE	Amount
FY 2015 Estimated	**11**	**$7,225**
Changes to Base:		
Maintaining Current Levels (MCLs):	-	$123
Pay-Raise	-	$19
Pay Annualization	-	$5
FERS Contribution Increase	-	$7
Non-Pay	-	$92
Subtotal Changes to Base	-	$123
Total FY 2016 Base	**11**	**$7,348**
Program Changes:		
Program Decreases:	(2)	($1,262)
Program Decreases	(2)	($1,262)
Total FY 2016 Estimated	**9**	**$6,086**

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) .... +$123,000 / +0 FTE

Pay-Raise +$19,000 / +0 FTE

Funds are required for the proposed January 2016 pay-raise.

Pay Annualization +$5,000 / +0 FTE

Funds are required for annualization of the January 2015 pay-raise.

FERS Contribution Increase +$7,000 / +0 FTE

Funds are required for increases in agency contributions to the Federal Employee Retirement System based on updated actuarial estimates.

Non-Pay +$92,000 / +0 FTE

Funds are required for non-labor costs such as travel, contracts, rent, and equipment.

Program Decreases .... -$1,262,000 / -2 FTE

Program Decreases -$1,262,000 / -2 FTE

Contract and personnel support related to state technical assistance will decrease as the funding allocated to the states and municipalities becomes fully expended.

2.2 – Operating Levels Table

Dollars in Thousands

State Small Business Credit Initiative Object Classification	FY 2014 Actual	FY 2015 Estimated	FY 2016 Estimated
11.1 - Full-time permanent	1,285	1,425	1,108
11.9 - Personnel Compensation (Total)	**1,285**	**1,425**	**1,108**
12.0 - Personnel benefits	395	505	394
Total Personnel and Compensation Benefits	**$1,680**	**$1,930**	**$1,502**
21.0 - Travel and transportation of persons	64	125	125
23.1 - Rental payments to GSA	246	214	214
23.3 - Communication, utilities, and misc charges	4	0	0
25.1 - Advisory and assistance services	2,589	1,591	1,013
25.2 - Other services	2	0	0
25.3 - Other purchases of goods & serv frm Govt accounts	3,239	3,335	3,202
26.0 - Supplies and materials	10	30	30
Total Non-Personnel	**6,154**	**5,295**	**4,584**
Total Budgetary Resources	**$7,834**	**$7,225**	**$6,086**
Budget Activities:			
SSBCI Program	103	0	0
SSBCI Administration	7,731	7,225	6,086
Total Budgetary Resources	**$7,834**	**$7,225**	**$6,086**
FTE	**10**	**11**	**9**

2B – Appropriations Language and Explanation of Changes
SSBCI does not receive a discretionary appropriation authority from Congress. Therefore, no appropriations language is proposed.

2C – Legislative Proposals
Treasury recommends new legislation authorizing a $1.5 billion extension of the SSBCI. $1 billion will be competitively awarded to states best able to target local market needs, promote inclusion, attract private capital for start-up and scale-up businesses, strengthen regional entrepreneurial ecosystems, and evaluate results among other factors. An additional $500 million will be allocated to states according to a need-based formula.

Justification
SSBCI effectively supports state-sponsored public-private partnerships to increase lending and investment to small businesses and manufacturers. SSBCI is already achieving results: the first $590 million in program expenditures supported loans and investments of $4.1 billion to more than 8,500 small businesses across the country—creating or saving more than 95,000 American jobs as reported by the small businesses who received the loans and investments. The FY 2016 President's Budget proposes to improve the targeting of SSBCI funding through competitive awards. A second round of SSBCI funding would also increase the impact of states' newly developed relationships with lenders and investors from the program's first round and would solidify a role for state economic development agencies which are highly responsive to capital needs in local markets. Further, because an extended program would build on the successes of newly created programs or legacy programs that were restarted with SSBCI funding, Treasury estimates that it would outlay funds at a faster rate than under the first round of funding.

Section 3 – Budget and Performance Plan

3A – State Small Business Credit Initiative Program

($0 from mandatory appropriations):

On September 27, 2010, President Obama signed into law the Small Business Jobs Act of 2010 (the "Act"). Section 3003 of the Act authorized and directed the Secretary of Treasury to establish a seven-year SSBCI, which was funded with $1.5 billion to support state programs that support lending to small businesses and small manufacturers. The SSBCI supports new small business lending and investment through innovative state and local programs that help entrepreneurs expand their businesses and create new jobs.

Under the SSBCI, participating states use the federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy but are not getting the loans they need to expand and create jobs. The SSBCI allows states to build on successful models for state small business programs, including CAPs, collateral support programs, loan guarantee programs, loan participation programs, and venture capital programs. Existing and new state programs are eligible for support under the SSBCI.

By the end of FY 2013, states reported expending, obligating, or transferring over $677 million in SSBCI funds, more than double the total at the end of FY 2012. States have continued to deploy funds such that by June 30, 2014, states had expended, obligated, or transferred $891 million. As of September 30, 2014, Treasury had disbursed over $1.14 billion, or 79 percent of allocations to states. SSBCI estimates disbursing cumulative totals of approximately $1.40 billion by the end of FY 2015 and $1.44 billion by the end of FY 2016, as states request disbursement of their approved allocations under the program.

In FY 2016, Treasury will continue to monitor the performance of state programs, tracking loans and investments made with SSBCI funds and disbursing obligated funds to states. In addition, Treasury will process requests from states to modify their allocation agreements to reapportion funds from lower to higher performing programs and to optimize program design in order to improve performance. Treasury plans to approve or deny 90 percent of all state requests for modifications and subsequent disbursements within 90 calendar days of final receipt. Additionally, Treasury plans to collect 90 percent of all quarterly reports within five days of the deadline to report. Treasury will also provide on-going technical support to recipients, including the dissemination of practices among recipients on such elements as program design, operations, and marketing.

Treasury proposes a new SSBCI authorization of $1.5 billion. In FY 2016, Treasury will process applications for need-based awards and will prepare and release the application for competitive awards.

3.1.1 – State Small Business Credit Initiative Program Budget and Performance Plan

Dollars in Thousands

SSBCI Program Budget Activity							
Resource Level	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimated	FY 2016 Estimated
Mandatory Resources	$0	$1,258,900	$188,384	$13,198	$103	$0	$0
Budget Activity Total	**$0**	**$1,258,900**	**$188,384**	**$13,198**	**$103**	**$0**	**$0**

Performance Measure	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2016 Target
Cumulative Value of SSBCI Funds Transferred to States (thousands)	$553,000	$917,000	$1,146,000	$1,367,000	$1,441,000
State Subsequent Disbursement Requests Approved or Denied within 90 days (%)	100	100	96	90	90
State Requests to Modify Allocation Agreements Approved or Denied within 90 days (%)	100	90	95	90	90
Receive State Quarterly Reports within five business days of reporting deadline (%)	100	93	95	90	90

As a source of funding for credit support and investment programs that increase access to capital for small businesses, SSBCI is aligned to Treasury's Strategic Goal 1 "Promote domestic economic growth and stability while continuing reforms of the financial system" including managing and exiting emergency programs. Additionally, the SSBCI is aligned with Treasury's Strategic Goal 2, "Enhance U.S. competitiveness and job creation, and promote international financial stability and more balanced global growth" by supporting lending to and investment in startup and early stage companies.

SSBCI sets three performance goals to measure the efficiency of program operations where Treasury can expressly influence the outcomes. The first goal is that Treasury approves or denies 90 percent of states' requests for a subsequent disbursement of funds within 90 days of receipt of a formal submission. In FY 2014, SSBCI processed 96 percent of requests within 90 days, excluding requests that were delayed due to ongoing or unresolved audits by the OIG. Similarly, SSBCI aims to process 90 percent of all requests by states to modify the Allocation Agreement with Treasury within 90 days. In FY 2014, SSBCI processed 95 percent of requests within 90 days. Finally, SSBCI aims to collect 90 percent of all quarterly reports within five days of the deadline to report. In FY 2014, SSBCI received 95 percent of quarterly reports from states within five business days of the reporting deadline.

3B – State Small Business Credit Initiative Administration

($6,086,000 from mandatory appropriations):

The authority to pay administrative expenses is provided by Section 3009 (b) of the Act which appropriates $1.5 billion to carry out the state small business credit program "including to pay reasonable costs of administering the program." Administrative expenses include the costs of government employee salaries, contract support, and reimbursement to the Treasury Office of Inspector General for program audits.

3.1.2 – State Small Business Credit Initiative Administration Budget and Performance Plan

Dollars in Thousands

SSBCI Administration Budget Activity							
Resource Level	**FY 2010 Actual**	**FY 2011 Actual**	**FY 2012 Actual**	**FY 2013 Actual**	**FY 2014 Actual**	**FY 2015 Estimated**	**FY 2016 Estimated**
Mandatory Resources	$0	$5,393	$4,746	$6,431	$7,731	$7,225	$6,086
Budget Activity Total	**$0**	**$5,393**	**$4,746**	**$6,431**	**$7,731**	**$7,225**	**$6,086**

Section 4 – Supplemental Information

4A – Summary of Capital Investments
SSBCI uses Departmental Office's (DO) systems and is part of DO's capital investment strategy.

A summary of capital investment resources, including major information technology and non-technology investments, can be viewed and downloaded at http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx
This website also contains a digital copy of this document.