

State Small Business Credit Initiative

FY 2017
President's Budget

February 9, 2016

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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 Budgetary Resources	FY 2015		FY 2016		FY 2017		FY 2016 to FY 2017			
	Actual		Estimated		Estimated		\$ Change		% Change	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:										
Recovery from Prior Years	-	1,908	-	-	-	-	-	-	0.00%	0.00%
Offsetting Collections	-	605	-	-	-	-	-	-	0.00%	0.00%
Unobligated Balances from Prior Years	-	19,323	-	15,483	-	8,780	-	(6,703)	0.00%	-43.29%
Subtotal Budgetary Resources	-	21,836	-	15,483	-	8,780	-	(6,703)	0.00%	-43.29%
Other Resources:										
SSBCI Program	-	-	-	-	-	-	-	-	0.00%	0.00%
SSBCI Administration	9	6,353	9	6,703	9	6,327	-	(376)	0.00%	-5.61%
Subtotal Other Resources	9	6,353	9	6,703	9	6,327	-	(376)	0.00%	-5.61%
Net Results	9	15,483	9	8,780	9	2,453	-	(6,327)	0.00%	-72.06%

1B – Vision, Priorities, and Context

SSBCI funds new and existing state programs that support lending to and investment in small businesses to stimulate economic growth and new jobs. Under 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 and investments 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 2017 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 2017 through FY 2023.

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. 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 the 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, SSBCI has positively impacted small business access to capital and local economies around the nation, supported over 12,400 private sector loans or investments to small businesses, and helped create or retain over 140,000 jobs, as reported by the small businesses who received the loans and investments¹.

Proposal for Extension

The FY 2017 President's Budget proposes a new authorization of 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 SSBCI, states were offered the opportunity to apply for federal funds for programs that support private lending and investing to small businesses. SSBCI allows states to build upon existing, successful state-level small business lending and investing programs, such as 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 through December 31, 2014.

As of September 30, 2015, all program participants reported expending or obligating SSBCI funds to support loans or investments in businesses. As of the same date, Treasury had outlayed to states approximately \$1.36 billion or 94 percent of the total funds available for disbursement. Treasury expects states to qualify to receive most of the remaining funds in FY 2016. States report transaction details to Treasury annually. Data through December 2014, when states expended \$864 million in SSBCI funds to leverage \$6.4 billion in new financing, suggest the following key findings:

- **SSBCI funds have 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. Nearly two-thirds of all SSBCI loans or investments supported by SSBCI were for less than \$100,000, and the average loan or investment size was \$369,000.
- **SSBCI funds have helped create or save more than 140,000 American jobs.** The small business owners who received financing expect that the loans and investments they received will create over 48,000 jobs within two years and help retain more than 92,000 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 all 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 2014, SSBCI operations had generated \$7.36 in new small business lending or investing for every \$1 of federal support.** Private sector leverage is expected to increase before the program concludes.
- **SSBCI has helped create more than 87 new small business support programs, which account for 54 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 the 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 2014, Treasury had 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 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 the Inspector General dedicated to auditing the use of SSBCI funds. Treasury will expend administrative costs over the seven-year life of the program.

FY 2017 Program Activity

In FY 2017, the last year of existing program authority, SSBCI will continue to monitor compliance and provide technical assistance to states and respond to OIG audits of states’ use of SSBCI funds. Additionally, Treasury will publish an evaluation of the first five years of the SSBCI program.

In FY 2017, Treasury proposes to administer a new SSBCI authorization of \$1.5 billion awarded in two parts: \$1 billion to be 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 2017, SSBCI would administer the formula award process and initiate the competitive award process. Treasury estimates outlays to states of \$212 million in FY 2017 and remaining outlays under Round 2 occurring between FY 2018 and FY 2021.

Outlays for SSBCI Round 1 and 2*

	Actual					Estimated						Total
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	
Round 1 Outlays	366	187	364	229	221	80	-	-				1,447
Round 2 Outlays	-	-	-	-	-	-	212	571	235	312	130	1,460
Total	366	187	364	229	221	80	212	571	235	312	130	2,907

*Does not include outlays for Treasury administrative expenses.

Office of the Inspector General (OIG) Activities

In FY 2017, OIG will continue to provide audit and investigative oversight of SSBCI. The authorizing legislation directs 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 2017 budget request will support 11 OIG employees through a reimbursable agreement to perform audits of the use of SSBCI funds. 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. OIG is expecting to continue to perform a significant number of audits during FY 2017 as states increase their use of funds and request additional disbursements from Treasury for Round one, and if adopted, for Round two.

Section 2 – Budget Adjustments and Appropriations Language

2.1 – Budget Adjustments Table

Dollars in Thousands

State Small Business Credit Initiative	FTE	Amount
FY 2016 Estimate	9	\$6,703
Changes to Base		
Maintaining Current Levels (MCLs)	0	\$107
Pay-Raise	0	\$15
Pay Annualization	0	\$5
Non-Pay	0	\$87
Subtotal Changes to Base	0	\$107
Total FY 2017 Base	9	\$6,810
Program Changes		
Program Decreases	0	(\$483)
Travel and Contract Support	0	(\$483)
Subtotal Program Changes	0	(\$483)
Total FY 2017 Request	9	\$6,327

2A – Budget Increases and Decreases Description

Adjustments to Estimate..... +\$617,000 / +0 FTE

The increase to the FY 2016 estimate is due to OIG audit responsibilities, SSBCI staffing through FY 2016 to ensure a proper wind-down, and the resources needed to pay for the development and production of the final program report.

Maintaining Current Levels (MCLs) +\$107,000 / +0 FTE

Pay-Raise +\$15,000 / +0 FTE

Funds are required for the proposed January 2017 pay-raise.

Pay Annualization +\$5,000 / +0 FTE

Funds are required for annualization of the January 2016 pay-raise.

Non-Pay +\$87,000 / +0 FTE

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

Program Decreases -\$483,000 / -0 FTE

Travel and Contract Support -\$483,000 / +0 FTE

Travel and contract 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 2015 Actual	FY 2016 Estimated	FY 2017 Estimated
11.1 - Full-time permanent	1,103	1,108	1,179
11.9 - Personnel Compensation (Total)	1,103	1,108	1,179
12.0 - Personnel benefits	360	394	355
Total Personnel and Compensation Benefits	\$1,463	\$1,502	\$1,534
21.0 - Travel and transportation of persons	45	125	63
23.1 - Rental payments to GSA	274	214	214
23.3 - Communications, Utilities, & Misc Charges	3	0	0
25.1 - Advisory and assistance services	2,367	1,250	853
25.2 - Other services from non-Federal sources	2	0	0
25.3 - Other purchases of goods & serv frm Govt accounts	2,193	3,582	3,633
26.0 - Supplies and materials	5	30	30
31.0 - Equipment	1	0	0
Total Non-Personnel	\$4,890	\$5,201	\$4,793
Total Budgetary Resources	\$6,353	\$6,703	\$6,327
Budget Activities:			
SSBCI Program	0	0	0
SSBCI Administration	6,353	6,703	6,327
Total Budgetary Resources	\$6,353	\$6,703	\$6,327
FTE	9	9	9

2B – Appropriations Language and Explanation of Changes

SSBCI does not receive a discretionary appropriation from Congress. Therefore, no appropriations language is proposed.

2C – Legislative Proposals

Treasury recommends new legislation authorizing a \$1.5 billion extension of SSBCI. Treasury will competitively award \$1 billion 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 \$864 million in program expenditures has already supported loans and investments of \$6.4 billion supporting over 12,400 private sector loans or investments to small businesses across the country—creating or saving more than 140,000 American jobs, as reported by the small businesses who received the loans and investments. The FY 2017 budget request 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 the 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. 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 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. SSBCI allows states to build on successful models for state small business programs, including collateral support programs (CAPs), loan guarantee programs, loan participation programs, and venture capital programs. Existing and new state programs are eligible for support under SSBCI.

By the end of FY 2015, states reported expending, obligating, or transferring over \$1.24 billion in SSBCI funds. As of September 30, 2015, Treasury had disbursed over \$1.36 billion, or 94 percent, of allocations to states. SSBCI estimates disbursing cumulative totals of approximately \$1.44 billion by the end of FY 2016, as states request disbursement of their approved allocations under the program.

In FY 2017, Treasury will continue to monitor the performance of state programs and compliance with program rules. Treasury will collect the final annual report from states for the year ending December 31, 2016, and will assess performance targets for the seven-year program. Additionally, Treasury will publish an interim evaluation of the SSBCI program.

Treasury proposes a new SSBCI authorization of \$1.5 billion. In FY 2017, 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	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Actual	Actual	Actual	Actual	Actual	Actual	Estimated	Estimated
Mandatory Resources	\$0	\$1,258,900	\$188,384	\$13,198	\$103	\$0	\$0	\$0
Budget Activity Total	\$0	\$1,258,900	\$188,384	\$13,198	\$103	\$0	\$0	\$0

Performance Measures	FY 2013	FY 2014	FY 2015	FY 2015	FY 2016	FY 2017
	Actual	Actual	Actual	Target	Target	Target
Cumulative Value of SSBCI Funds Transferred to States (thousands)	\$917,000	\$1,146,000	\$1,367,000	\$1,367,000	\$1,441,000	\$0
State Subsequent Disbursement Requests Approved or Denied within 90 days (%)	100	96	93	90	90	90
State Requests to Modify Allocation Agreements Approved or Denied within 90 days (%)	90	95	90	90	90	90
Receive State Quarterly Reports within five business days of reporting deadline (%)	93	95	96	90	90	90

Key: DISC – Discontinued

As a source of funding for credit support and investment programs that increase access to capital for small businesses, SSBCI supports the following strategic objective of Strategic Goal #1, to promote domestic economic growth and stability while continuing reforms of the financial system:

- Objective 1.1: Promote savings and increased access to credit and affordable housing options.

SSBCI set 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 2015, SSBCI processed 93 percent of requests within 90 days, excluding requests that were delayed due to ongoing or unresolved audits by 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 2015, SSBCI processed 100 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 2015, SSBCI received 96 percent of quarterly reports from states within five business days of the reporting deadline.

Additionally, Treasury established performance indicators related to cumulative state program activity as of December 31, 2016, the date of the final annual report from participating states. These indicators are a response to a GAO audit. The first indicator is that Treasury disburses 98 percent of funds available to states by December 31, 2016. As of September 30, 2015, Treasury had disbursed 93 percent of available funds. The second indicator is that states achieve a cumulative private sector leverage ratio of 10:1 by December 31, 2016. As of December 31, 2014, states had achieved a cumulative leverage ratio of 7:36:1. The third indicator is that 98 percent of all Other Credit Support Programs (OCSPs) operated by states target borrowers or investees with fewer than 500 employees. As of December 31, 2014, 100 percent of OCSPs met this target on an interim basis. The fourth indicator is that

98 percent of OCSOs make loans or investments with an average principal amount of \$5 million or less by December 31, 2016. As of December 31, 2014, 97 percent of OCSOs met this target on an interim basis.

Performance Indicators (source: Annual Reports)	2012 Actual	2013 Actual	2014 Actual	2015* Actual	2016 Target
New financing leverage	6.58:1	6.95:1	7.36:1	N/A	10:1
Disbursement of funds available to states (% of total)	40	69	87	N/A	98
Percentage of OCSOs that target borrowers or investees with 500 or fewer employees	100	100	100	N/A	98
Percentage of OCSOs that make loans with an average principal amount of \$5 million or less (source: Annual Reports)	93	93	97	N/A	98

Key: DISC – Discontinued

*As of the date of this request, CY 2015 Actuals are not available. The performance indicators are related to cumulative state program activity as of December 31, 2016, the date of the final annual report from participating states.

3B – State Small Business Credit Initiative Administration

(\$6,327,000 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 the 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 Actual	FY 2016 Estimated	FY 2017 Estimated
Mandatory Resources	\$0	\$5,393	\$4,746	\$6,431	\$7,731	\$6,353	\$6,703	\$6,327
Budget Activity Total	\$0	\$5,393	\$4,746	\$6,431	\$7,731	\$6,353	\$6,703	\$6,327

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-information 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.