

State Small Business Credit Initiative

2015 President's Budget

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Section 1 – Purpose

1A – Mission Statement

To increase the availability of credit for small business, 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 2013		FY 2014		FY 2015		FY 2014 to FY 2015			
	Actual		Estimated		Estimated		\$ Change		% Change	
Budgetary Resources	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:										
Recovery from Prior Years	0	2,155	0	2,310	0	1,000	0	(1,310)	0.00%	-56.71%
Mandatory – Collected	0	558	0	0	0	0	0	(0)	0.00%	0.00%
Unobligated Balances from Prior Years	0	42,696	0	25,777	0	19,788	0	(5,989)	0.00%	-23.23%
Subtotal Budgetary Resources	0	\$45,409	0	\$28,087	0	\$20,788	0	(7,299)	0.00%	-25.99%
Other Resources:										
SSBCI Program	0	\$13,198	0	\$0	0	\$0	0	0	0.00%	0.00%
SSBCI Administration	11	\$6,431	14	\$8,299	12	\$6,752	(2)	(1,547)	-14.29%	-18.64%
Subtotal Other Resources	11	\$19,629	14	\$8,299	12	\$6,752	(2)	1,547	-14.29%	-18.64%
Net Results	11	\$25,777	14	\$19,788	12	\$14,036	(2)	(5,752)	14.29%	29.07%

*Amounts may differ from those printed in the FY 2015 President's Budget Appendix due to rounding.

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 authorized and appropriated \$1.5 billion for a program that sunsets in 2017. Due to the success of the first round of SSBCI, the President's Budget proposes a second round of \$1.5 billion for a program to run from 2015 through 2021. The second round expands on the success of the first round and capitalizes on new working relationships between states and small business lenders and investors.

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 were required to demonstrate a reasonable expectation that a minimum of \$10 in new private lending will result from every \$1 in federal funding. Accordingly, the \$1.5 billion funding commitment that the federal government has made for this program is expected to result in \$15 billion in new private lending and investment to small businesses, aligning with Treasury's strategic goal to repair and reform the financial system and support the recovery of the housing market.

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 (OCSP) 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 dedicated 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 Small Business Jobs Act of 2010, the State Small Business Credit Initiative (SSBCI) has had a positive impact on small business access to capital and local economies. The first \$271 million in program expenditures supported lending and investments of \$1.9 billion to more than 4,600 small businesses across the country—creating or saving more than 53,000 jobs.¹ The program's success is expected to help spur up to \$15 billion in new small business lending and investing through local programs that help entrepreneurs expand their businesses and create new jobs.

Proposal for Extension

The President's budget calls for a new authorization of the SSBCI to build on the momentum of the program's first round of funding and strengthen the Federal government's relationships with state economic development agencies, which are highly responsive to capital needs in local markets. This additional \$1.5 billion would be awarded in two allocations: \$1 billion awarded on a competitive basis to states best able to target underserved groups, leverage Federal funding, and evaluate results and \$500 million awarded by a need-based formula based on economic factors such as job losses and pace of economic recovery.

Program Activity to Date

Under the SSBCI, states were offered the opportunity to apply for federal funds for programs that partner with private lenders 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 due to the recession. The SSBCI allows states to build upon existing, successful state-level small business lending and investing programs, including examples 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 and 2012. States report data for 2013 on March 30, 2014.

By the end of FY 2013, 55 of the 57 program participants reported using SSBCI funds to support loans or investments in businesses using disbursed funds. Treasury expended, obligated, or transferred (collectively, disbursed) over \$379 million in FY 2013 and \$911 million cumulatively, to states. As of February 12, 2014, Treasury had disbursed to states approximately \$1 billion of the \$1.5 billion total. Treasury plans to disburse most of the remaining funds in FY 2014 and FY 2015. States report transaction details to Treasury on an annual basis. Data through December 2012, the first 18 months of activity, when states expended \$271 million in SSBCI funds to leverage \$1.9 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 SSBCI loans or investments were for less than \$100,000, and the average SSBCI loan or investment size was \$327,000. The SSBCI funds resulted in total financing per small business of \$404,000
- **SSBCI funds have helped create or save more than 53,000 American jobs.** The small business owners who received financing expect that the loans and investments they received will create over 17,000 jobs within two years and help retain more than 36,000 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 2012, SSBCI operations have already generated \$6.58 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, approximately 50 percent of the programs currently disbursing SSBCI funds.** Through the availability of SSBCI funds, a new infrastructure of credit support programs has been created across the country.

States were eligible to apply for funding based on formulas in the Small Business Jobs Act that take into account each state's decline in employment relative to the overall national decline. Pursuant to the Act, funds were available to all 50 states along with 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, then 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 apply).

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 three states, Alaska, North Dakota, and Wyoming. Once approved, all funding for each respective entity is allocated. Treasury outlays funds to participating states in three disbursements. Outlays occur as the participating states expend, obligate, and transfer the funds and submit disbursement requests to Treasury. In addition, less than 3 percent of the appropriation has been allocated to Treasury administrative expenses. Treasury will expend administrative costs over the seven-year life of the program.

FY 2015 Program Activity

In FY 2015, the SSBCI will continue to monitor and provide technical assistance to states in order to increase the effectiveness and rate of deployment of SSBCI funds. Treasury staff and contractors will provide services that include training and support for program design, operations, and outreach to financial institutions.

The President’s Budget proposes a new SSBCI authorization of \$1.5 billion (Round 2). SSBCI will also administer the application phase of the proposed extension during FY 2015. 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. Competitive scoring would include a state’s demonstrated need for funding, targeting of underserved communities, and the proposals’ potential to attract private investment for startup or early stage businesses, among other factors. During FY 2015, SSBCI would administer both the formula and competitive award process with some awards made in FY 2015 and the remainder in FY 2016. Treasury estimates outlays to states of \$274 million in FY 2015 with most of the remaining outlays under Round 2 occurring in FY 2016 and FY 2017.

Outlays to Participating States for SSBCI Round 1 and 2*

	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Estimated	FY 2015 Estimated	FY 2016 Estimated	FY 2017 Estimated	FY 2018 Estimated	Total
Round 1 Outlays	366	187	364	383	140	-	-	-	1,440
Round 2 Outlays	-	-	-	-	274	622	534	30	1,460
Total	366	187	364	383	414	622	534	30	2,922

*Data does not include outlays for Treasury administrative expenses.

Office of Inspector General (OIG) Activities

In FY 2015, the OIG will continue to provide audit and investigative oversight of SSBCI. The authorizing legislation the program directs the OIG to audit the use of SSBCI funds by participating states so that Treasury can recoup any misused funds identified by such audits.

The FY 2015 budget request will support the 15 SSBCI-OIG employees 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 perform a significant number of audits during FY 2015 as states increase their use of funds and request additional disbursements from Treasury.

Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

Dollars in Thousands

State Small Business Credit Initiative	FTE	Amount
FY 2014 Estimated	14	\$8,299
Changes to Base:		
Maintaining Current Levels (MCLs):	-	\$99
Pay-Raise	-	\$26
Non-Pay	-	\$73
Subtotal Changes to Base	-	\$99
Total FY 2015 Base	14	\$8,398
Program Changes:		
Program Decreases:	(2)	(\$1,646)
Program Reduction	(2)	(\$1,646)
Total FY 2015 Estimated	12	\$6,752

2A – Budget Increases and Decreases Description

Maintaining Current Levels (MCLs) +\$99,000 / +0 FTE

Pay-Raise +\$26,000 / +0 FTE

Funds are requested for the proposed January 2015 pay-raise and annualization of the January 2014 pay raise.

Non-Pay +\$73,000 / +0 FTE

Funds are requested for inflation adjustments in non-labor expenses such as GSA rent adjustments, postage, supplies, and equipment.

Program Decreases -\$1,646,000 / -2 FTE

Program Reduction -\$1,646,000 / -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	FY 2013	FY 2014	FY 2015
Object Classification	Actual	Estimated	Estimated
11.1 - Full-time permanent	1,204	1,513	1,397
11.9 - Personnel Compensation (Total)	1,204	1,513	1,397
12.0 - Personnel benefits	340	547	505
Total Personnel and Compensation Benefits	\$1,544	\$2,060	\$1,902
21.0 - Travel and transportation of persons	70	125	125
23.1 - Rental payments to GSA	202	208	214
25.1 - Advisory and assistance services	2,332	2,495	1,100
25.2 - Other services	0	182	178
25.3 - Other purchases of goods & serv frm Govt accounts	2,261	3,199	3,203
26.0 - Supplies and materials	22	30	30
41.0 - Grants, subsidies, and contributions	13,198	0	0
Total Non-Personnel	18,085	6,239	4,850
Total Budgetary Resources	\$19,629	\$8,299	\$6,752
Budget Activities:			
SSBCI Program	13,198	0	0
SSBCI Administration	6,431	8,299	6,752
Total Budgetary Resources	\$19,629	\$8,299	\$6,752
FTE	11	14	12

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

The Administration recommends new legislation authorizing a \$1.5 billion extension of the SSBCI. Of the total amount proposed, \$1 billion will be competitively awarded to states best able to target underserved groups, leverage Federal funding, and evaluate results. 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 \$271 million in program expenditures supported lending and investments of \$1.9 billion to more than 4,600 small businesses across the country—creating or saving more than 53,000 American jobs. The 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 in FY 2014 and \$0 in FY 2015 in the base program)

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, and loan guarantee 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. As of February 2014, in less than three years of program activity, Treasury has disbursed over \$1 billion, or 70% of allocations to states. SSBCI estimates disbursing cumulative totals of approximately \$1.3 billion by the end of FY 2014 and \$1.44 billion by the end of FY 2015, as states request disbursement of their approved allocations under the program.

In FY 2015, 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 programs 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.

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

Dollars in thousands

SSBCI Program Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Estimated	FY 2015 Estimated
Expenses/Obligations	\$0	\$0	\$0	\$1,258,900	\$188,384	\$13,198	\$0	\$0
Budget Activity Total	\$0	\$0	\$0	\$1,258,900	\$188,384	\$13,198	\$0	\$0

Measure	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Target	FY 2015 Target
Cumulative Value of SSBCI Funds								
Transferred to States	N/A	N/A	N/A	\$366,000	\$553,000	\$917,000	\$1,300,000	\$1,440,000
State Subsequent Disbursement Requests Approved or Denied within 90 days	N/A	N/A	N/A	N/A	100	100	90	90
State Requests to Modify Allocation Agreements Approved or Denied within 90 days	N/A	N/A	N/A	N/A	100	90	90	90
Receive State Quarterly Reports within five business day of reporting deadline	N/A	N/A	N/A	N/A	100	93	90	90

*Excludes modification or disbursement requests delayed due to unresolved OIG audits.

By serving 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 “to 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...” 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 2013, SSBCI processed 100 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 2013, SSBCI processed 90 percent of requests within 90 days, less than the 100 percent in FY 2012, due to an increased volume of requests from states to modify their Allocation Agreements to add or materially change their programs. Finally, SSBCI aims to collect 90 percent of all quarterly reports within five days of the deadline to report. In FY 2013, SSBCI received 93 percent of quarterly reports from states within five business days of the reporting deadline.

The value of SSBCI funds transferred to states is driven by program activity at the state level. Many states used SSBCI funds to start new programs or re-start legacy programs which took time to ramp up. In FY 2013, states requested \$379 million compared to \$172 million in FY 2012.

3B – State Small Business Credit Initiative Administration Program

(\$8,299,000 in FY 2014 and \$6,752,000 in FY 2015)

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 Resource Level	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Estimated	FY 2015 Estimated
Expenses/Obligations	\$0	\$0	\$0	\$5,393	\$4,746	\$6,431	\$8,299	\$6,752
Budget Activity Total	\$0	\$0	\$0	\$5,393	\$4,746	\$6,431	\$8,299	\$6,752

*Excludes modification or disbursement requests delayed due to unresolved OIG audits.

Section 4 – Supplemental Information

4A – Summary of Capital Investments

SSBCI uses Departmental Offices systems and is part of DO's capital investment strategy. SSBCI also, through an interagency agreement of approximately \$110 thousand, utilizes the Community Development Financial Institutions Fund Community Investment Impact System (CIIS).

The Act requires the states, territories, District of Columbia, and municipalities receiving SSBCI funds ("recipients") to submit quarterly and annual reports, and the SSBCI Allocation Agreement which clarifies the terms and conditions governing the transfer of funds to the recipient and specifies the exact data elements that recipients must provide in these reports. These quarterly and annual reports are similar to the surveys that CIIS collects from CDFI recipients. As a result, SSBCI is leveraging this existing system to meet its data collection needs.

A summary of capital investment resources, including major information technology and non-technology investments, can be viewed/downloaded at: <http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx>