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SMALL BUSINESS  
ADMINISTRATION

SMALL BUSINESS ADMINISTRATION

FY '78 DIRECTOR'S REVIEW

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OVERVIEW

FY 1978 BUDGET  
SMALL BUSINESS ADMINISTRATION

OVERVIEW

Background

The Small Business Administration's (SBA) programs are funded primarily from revolving funds. SBA outlays from these programs result from the following:

- Disbursement of direct loans; about 70% of the direct loan amount is disbursed in the year the loan is made, with the remaining 30% disbursed in the following fiscal year.
- Purchase of defaulted loans which have been guaranteed; guaranty purchases normally do not result in any outlays in the year the commitment is made and very small outlays occur until approximately the third and fourth year.
- Repayment of direct loans provides revenues to the SBA revolving funds, which reduces outlays and the need for appropriation.
- Administrative costs of SBA programs such as management assistance, procurement assistance, administrative support services, etc.

SBA has authority to sell its direct loan paper to obtain receipts and reduce its net outlays. SBA was permitted to sell direct loans to the Federal Financing Bank to obtain a reduction in outlays of \$170M and \$150M in FY 1976 and FY 1977 respectively. The sale of direct loan paper was permitted primarily for budgetary reasons to control the level of total net outlays.

The direct loan programs are considered controllable, except for the physical disaster loan program which has been treated as uncontrollable due to the unpredictability of natural disasters.



## Summary of SBA Request

### 1977 Budget Request

The enactment of additional appropriation (+\$150 million) in 1977 resulted in increasing the SBA direct loan programs by \$135 million and provided \$15 million in funding for the recently authorized pollution control guarantee program. The effect of the additional appropriation would increase the SBA outlay ceiling in 1977 and 1978 by \$94 million and \$41 million respectively. This significant Congressional add-on of appropriation was not considered in the OMB planning ceiling for 1978.

The agency proposes the full commitment of the additional funds provided in 1977 and has factored the increase in the 1977 and 1978 outlay request. The agency outlay request for 1977 also includes \$22 million for an unanticipated increase in interest payments to Treasury due to higher loan disbursements in 1976.

The EGD recommendation accepts the agency's request for interest payments and commitment of the additional direct loan funds, with the exception of \$15 million provided for the Development Company Loan program and \$95 million provided for the 7(a) Regular Business Loan program. The Division proposes a rescission of these direct loan funds as outlined in Issue #1 (Development Company Loan) and Issue #2 (7(a) Regular Business). The impact of the proposed rescissions would reduce budget authority by \$110 million in 1977. Outlays would be reduced \$74 million in 1977 and \$36 million in 1978.

### 1978 Budget Request

SBA submitted an initial budget request totaling \$715 million in budget authority and \$518 million in outlays for 1978. However, this initial request included a proposed sale of direct loan paper to reduce both budget authority and outlays by \$50 million. This request exceeded the OMB planning ceiling for budget authority by \$69 million, but was \$11 million below the outlay ceiling.

Since the OMB planning ceiling had not provided for any sale of direct paper, the agency was requested to submit a revised proposal without the direct loan sale to reduce outlays by \$50M. A revised request was submitted which was in line with the OMB outlay planning ceiling of \$529 million but exceeded the budget authority ceiling of \$646 million by \$63 million. A comparison by major program components of the agency's request and EGD recommendation on outlays is provided in the table entitled "Distribution of Outlays." The following is a summary of the requested loan levels, budget authority, outlays and employment:

7(a) Direct Loan Program:

SBA's request of \$135M for 7(a) direct loans would be a \$60M reduction below the 1977 enacted level but would be an increase of \$40M above the OMB planning ceiling. EGD recommends accepting the agency request with the requirement that direct loan borrowers be charged an administrative fee to fully cover direct loan losses (Refer to Issue #2).

7(a) Guaranteed Loan Program:

The SBA request of \$2.5B for 7(a) guaranteed loans is \$500M above both the FY 1977 budget request and the OMB 1978 budget ceiling. This request is based on the priority emphasis of the SBA Administrator to stimulate bank participation in the program. EGD recommends holding the program in 1978 to the 1977 level of \$2B, pending a complete review and analysis of efforts in 1977 to place the program on a self-sustaining basis. (Refer to Issue #2).

Development Company Loan (DCL) Program

The SBA request of \$50M for direct DCL loans is \$30M above the level requested in the FY 1977 Presidential budget and is \$40M above the OMB FY 1978 budget ceiling. This request is part of the SBA Administrator's current priority objective to revitalize urban and neighborhood areas. The request has been posed as a major initiative of the President's Committee on Urban Development and Neighborhood Revitalization.

EGD recommends no funding for the DCL program pending an OMB analysis to determine whether the program should be terminated or transferred to EDA.

Surety Bond Guarantee Program:

The SBA request of \$900M is \$150M above both the FY 1977 budget request and our FY 1978 budget ceiling. This request is based on the desirability to continue to meet the bonding demand of small contractors.

EGD recommends holding the Surety Bond Guarantee program to the 1977 level of \$750M, pending the completion of a comprehensive study on appropriate objectives for the program. It is further recommended that legislation be submitted to raise the bonding threshold in the Miller Act of 1935 which requires all Federal construction contracts above \$2,000 to be bonded (Refer to Budget Recommendation #5).

Employment:

The SBA request for an additional 516 positions is primarily based on the desirability to improve the management of SBA loan programs and expand management assistance services.

EGD recommends providing (a) 34 positions to improve the loan portfolio and auditing function, (b) 20 positions to implement the "account executive" concept which would test the coordination of SBA assistance to minority small businesses and (c) 6 positions to develop and implement productivity and work measurement standards. SBA lacks adequate productivity and work standards to justify further increases in positions as requested.

Impact of Division Recommendation

Budget Authority

The EGD recommendation provides SBA with \$625 million in budget authority which represents a reduction of \$21 million from the OMB budget ceiling and \$84 million from the agency request. The primary difference between the EGD recommendation and the agency request on budget authority is due to the lower recommended level for the 7(a) guaranteed loan program.

Outlays

The EGD recommendation provides SBA with \$535 million in outlays which represents an increase of \$6 million above the OMB budget ceiling and agency request. The EGD recommendation on outlays is composed of a major increase for the physical disaster loan program (+\$31M) and reduced outlays for the Development Company Loan program (-\$14M) and requested employment (-\$10M).





### Improving Program Management

In the last two years, SBA has initiated a concerted effort to streamline loan processing and improve the status of its loan portfolio. The following are examples of this effort:

- . "Project Help" was implemented from January to April 1975 to improve the status of the loan portfolio in 20 key district offices. High-grade central office staff were temporarily assigned in the district offices and reviewed over 8,000 loans which were delinquent or in liquidation.
- . "Operation Streamline" was implemented from September to October 1975 to simplify and streamline the loan processing and closing procedures.
- . "Operation Portfolio Management Effectiveness" was implemented from February to March 1976 to improve portfolio management procedures and upgrade the training of SBA loan servicing staff.

SBA's initial PMI plan was piecemeal and incomplete. However, the revised edition that was submitted in October presents a comprehensive plan. We note that the agency's MBO's for 1977 and 1978 are still under review. The proposed evaluations tend to focus on operational rather than impact or goal development aspects of SBA programs. The plan does not clearly identify whether any cost savings will actually result from the proposed actions.

### Program Evaluations

In FY 1976, GAO completed studies on SBA's Minority Enterprise Small Business Investment Company (MESBIC), Lease Guarantee, 7(a) Regular Business Loan, and Local Development Company Loan programs. Other GAO reports covered SBA's personnel and financial management functions.

In June 1976, SBA completed a major study entitled "Small Enterprise in the Economy" (SEE) which addressed an overall perspective of the small business community and identified major small business problems and solutions. In general, the SEE study did not open new "frontiers" of knowledge on small business issues.

Our review of SBA's 1978 budget submission indicates that the agency should complete the following studies or actions prior to the next budget season:

- . Impact Evaluation of the Management Assistance Programs,
- . Development of Appropriate Program Objectives for the Surety Bond Guarantee Program,
- . Develop Productivity and Work Measurement Standards
- . Cost /Benefit Evaluation of Providing Financial Assistance To Repay or Refinance Private debt.

#### Consumer Representation

SBA's Consumer Representation Plan centers on the SBA advocacy effort and highlights program areas currently maintaining communications with the public. In addition, SBA plans to broaden the consumer outreach effort by:

- . Expanding consumer representation on the local Advisory Councils,
- . Designate individuals as Consumer Representatives in local SBA offices,
- . Establish the position of Advocate for Consumer Affairs and Women-in-Business to coordinate consumer activities.

In sum, SBA's Consumer Representation Plan emphasizes primarily the exchange of program information with consumers.

Summary of SBA Request  
(\$ in millions)

	<u>FY 1976 Actual</u>	<u>FY 1977 Enacted</u>	<u>FY 1978 Ceiling</u>	<u>FY 1978 Request</u>		<u>Change 77 - 78 (Rev.)</u>
				<u>Initial</u>	<u>Revised</u>	
<b>Loan Levels</b>						
Business Nonphysical						
Direct	278	450	280	420	380	-18%
Guarantees	1,614	2,297	2,297	2,757	2,757	+20%
Physical Disaster						
Direct	136	60	60	75	60	-
 B.A.	 419	 781	 646	 715	 709	 -10%
Gross Outlays	606	670	529	568	529	-27%
Less: Sale of Assets	<u>170</u>	<u>150</u>	<u>-</u>	<u>50</u>	<u>-</u>	<u>N/A</u>
Net Outlays	436	520	529	518	529	+ 2%
 Employment (FTP)	 4,339	 4,434	 4,434	 4,950	 4,950	 +12%

1978 Budget Increases

Major program increases and potential areas of major disagreement with SBA are:

Physical Disaster Loan Program: SBA's revised request provided \$60M in direct Physical Disaster loans. In view of the trend of actual disaster loan approvals which varied between \$246M to \$136M in FY 1975 and 1976, both EGD and HVLD recommend that the physical disaster loan level be increased to \$100M in 1978. This would increase outlays in 1978 from a requested \$11M to \$42M.



# Small Business Administration

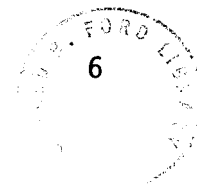
## 1978 Budget

### Summary Data

	(In millions)		Employment, end-of-year	
	Budget Authority	Outlays	Full-time Permanent	Total
1976 actual.....	419	436	4,136	4,620
1977 Budget, January 76 estimate.....	631	404	4,434	4,764
enacted.....	781	520	xxx	xxx
supplementals (rescissions) recommended ....	(110)	( 74)	xxx	xxx
agency request.....	781	520	5,011	5,341
OMB recommendation.....	671	446	4,434	4,764
OMB employment ceiling.....	xxx	xxx	4,434	4,764
1978 planning target.....	646	529	xxx	xxx
agency request.....	709	529	4,960	5,290
OMB recommendation.....	625	535	4,494	4,824
1979 OMB estimate.....	725	548	4,494	4,824

### Summary of Issues

	1978				1979	
	Agency req.		OMB recom.		OMB est.	
	BA	0	BA	0	BA	0
Issues:						
#1. Development Company Loan Program.....	55	18	-	4	-	-
#2. 7(a) Regular Business Loan Program.....	510	205	435	197	450	207



# Small Business Administration

## 1978 Budget

### Direct and Guaranteed Loan Levels

(\$ in millions)

	FY 1976	FY 1977				FY 1978		
	<u>Actual</u>	<u>Budget</u>	<u>Enacted</u>	<u>Agency Request</u>	<u>OMB Rec.</u>	<u>Request</u>	<u>Within Ceiling Request</u>	<u>OMB Rec.</u>
7(a) Regular Direct Guaranteed	112 1,550	100 2,000	195 2,000	195 2,000	100 2,000	135 2,500	95 2,000	135 2,000
Handicapped Asst. Loan-Direct Guaranteed	10 1	10 30	20 30	20 30	20 30	10 10	10 30	10 10
Econ. Opportunity Loan-Direct Guaranteed	54 28	55 74	60 74	60 74	60 74	55 50	55 74	55 50
Dev. Company Loan-Direct Guaranteed	26 11	20 41	35 41	35 41	20 41	50 45	10 41	- -
Displaced Bus. Loan-Direct Guaranteed	24 1	30 2	40 2	40 2	40 2	30 2	25 2	30 2
Small Bus. Inv. Co.-Direct Guaranteed	9 23	20 150	20 150	20 150	20 150	20 150	20 150	20 100
Nonphysical Disaster Direct	43	80	80	80	80	80	65	80
Physical Disaster-Direct	<u>136</u>	<u>60</u>	<u>60</u>	<u>60</u>	<u>60</u>	<u>60</u>	<u>60</u>	<u>100</u>
Totals Direct Loans Guarantees	414 1,614	375 2,297	510 2,297	510 2,297	400 2,297	440 2,757	340 2,297	430 2,162

# Small Business Administration

## 1978 Budget

### Distribution of Outlays (In millions of dollars)

	1976		1977		1978		1979
	Actual	Budget	Agency request	OMB recom.	Agency request	OMB Rec.	OMB est.
					Revised	Within Ceiling	
A.. Open-ended programs							
Physical Disaster Loan Program	63	37	37	37	11	37	42
B. Discretionary programs							
1. Management Assistance Program	13	14	14	14	22	14	17
2. Procurement Assistance Programs	6	6	6	6	6	6	6
3. Financial Assistance Program:							
a. 7(a) Regular Business	245	200	270	203	205	177	207
b. Handicapped Assistance	6	7	13	13	6	6	6
c. Development Company	11	6	13	6	18	6	-
d. Investment Company	-	-	-	-	-	-	-
e. DBL/Nonphysical Disaster	71	62	67	67	75	69	82
f. Surety Bond Guarantee	17	20	20	20	25	25	20
g. Pollution Control/Lease Guarantee	3	2	2	2	-4	3	-4
4. Assistance to Socially and Economically Disadvantaged	57	89	93	93	91	89	95
5. Administration and Support	82	90	90	90	99	90	94
6. Other Fund Adjustments	32	21	45	45	-25	7	-17
Subtotal	606	554	670	596	529	529	548
Sale of Assets	-170	-150	-150	-150	-	-	-
Total	436	404	520	446	529	529	548

Small Business Administration

1978 Budget

Direct Loan Disbursements  
(\$ in millions)

	<u>FY 1976</u>	<u>FY 1977</u>				<u>FY 1978</u>		
	<u>Actual</u>	<u>Budget</u>	<u>Enacted</u>	<u>Agency Request</u>	<u>OMB Rec.</u>	<u>Revised Request</u>	<u>Within Ceiling Request</u>	<u>OMB Rec.</u>
7(a) Regular Business Loan	78	70	137	137	70	95	67	95
Handicapped Assistance Loan	6	6	12	12	12	6	6	6
Economic Opportunity Loan	36	36	40	40	40	36	36	36
Development Company Loan	13	10	17	17	10	25	5	-
Displaced Business Loan	13	17	22	22	22	17	14	17
Minority Enterprise SBIC	9	20	20	20	20	20	20	20
Nonphysical Disaster	<u>22</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>33</u>	<u>40</u>
Subtotal	177	199	288	288	214	239	181	214
Physical Disaster	<u>68</u>	<u>30</u>	<u>30</u>	<u>30</u>	<u>30</u>	<u>30</u>	<u>30</u>	<u>50</u>
Total Direct Loan Disbursements	245	229	318	318	244	269	211	264



# Small Business Administration

## 1978 Budget

### Five-year Projections (OMB estimate in millions of dollars)

		<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Physical Disaster	B/A	50	50	50	50	55
	0	42	42	48	50	55
Management Assistance	B/A	17	17	17	17	17
	0	17	17	17	17	17
Procurement Assistance	B/A	6	6	6	6	6
	0	6	6	6	6	6
Financial Assistance	B/A	350	375	400	375	350
	0	304	308	329	320	320
Assistance to Socially and Economically Disadvantaged	B/A	123	125	130	135	135
	0	90	95	100	90	90
Other Expenses	B/A	79	152	152	142	137
	0	76	80	100	142	142
Total .....	B/A	625	725	755	725	700
	0	535	548	600	625	630

### Summary Comparison of Outlay Projections

1977 Budget					
January 1976 estimates ....	537	572	593	625	xxx
1977 Budget, Mid-Session					
Review estimates .....	552	572	593	625	xxx

# Small Business Administration

## 1978 Budget

### Legislative Program Items

	<u>(\$ in millions)</u>		<u>Employment, end of period</u>	
	<u>Budget authority</u>	<u>Outlays</u>	<u>Full-time</u>	<u>Permanent</u>
				<u>Total</u>
Surety Bond Guarantees				
Fund, FY 1978				
Agency Request	19	25	--	--
OMB Recommendation	17	25	--	--

Proposed legislation would increase authorization to meet surety bond guarantee defaults which would result during 1978.

Small Business Administration  
1978 Budget

Authorizing Legislation Required for 1979  
(Under sec. 607(f), PL.L. 93-344,  
this legislation must be transmitted to Congress  
no later than May 15, 1977)  
(\$ in millions)

		<u>1979</u>		<u>1980</u>		<u>1981</u>		<u>1982</u>		
		<u>Req.</u>	<u>Recom.</u>	<u>Req.</u>	<u>Recom.</u>	<u>Req.</u>	<u>Recom.</u>	<u>Req.</u>	<u>Recom.</u>	
Existing Program for which authorization must be renewed in 1979:										
Surety Bond Guarantee		BA	19	17	19	17	19	17	19	17
		0	20	20	20	15	20	15	10	15

Explanation: Proposed authorization for this program would provide for anticipated defaults on surety bond guarantees.

ISSUE #1

Issue Paper  
Small Business Administration  
1978 Budget  
Issue #1: Development Company Loan Program

Background

Local Development Company

The purpose of the Development Company Loan (DCL) program is to provide long-term loan assistance to small business through State and local development companies in order to stimulate economic development and create jobs in selected communities. Unlike other SBA programs which focus primarily on assisting small businesses, community involvement through development companies is required in the DCL program to determine and select development projects for DCL funding.

In general, a development company can incorporate either for profit or non-profit under laws of the state in which it expects to do business. The development company must be composed of a minimum of 25 stockholders or members, and 75 percent of the membership must live or do business in the local community. The development company can obtain SBA DCL assistance up to \$350,000 for each identifiable small business to be assisted. The proceeds of DCL funding can be used for buying land, acquiring equipment, and expanding or converting an existing plant. In each project receiving DCL funding, the development company must provide between 10 to 20 percent of the total project costs.

SBA estimates that over 80 percent of DCL funding has been committed to non-urban areas. Examples of localities which have received and successfully used DCL assistance since FY 1972 are:

- Lincolnton, N.C. (population, 5,699)

SBA approved \$3.4M in DCL funding for expansion of 19 small businesses at a total cost of \$4.2M. Types of small businesses assisted included upholstered furniture manufacturers, a knitting mill, a bonded warehouse company, an office supply company, a box manufacturer, yarn/hosiery/spinning mills, and retail stores.

- Ellijah, Georgia (population 1,360)

The community acquired 15 new facilities at a total cost of \$3.3M with the local bank providing \$800K, the development company providing \$400K, and SBA providing \$2.1M in DCL funding. Types of small businesses assisted included a spinning mill, a hardwood floor manufacturing company, a lumberyard, a poultry processing plant, and a restaurant.

- ° Steamboat Spring, Colorado (population 2,300)

Nineteen development company loans were made to assist small businesses in the service and recreation-oriented areas. The total cost of projects financed with SBA DCL assistance was \$5M.

#### Revitalization of Urban and Neighborhood Areas

The SBA Administrator has proposed the expansion of primarily the direct DCL program as a major Administration initiative in accord with the objectives of the Committee on Urban Development and Neighborhood Revitalization. A pilot project initiating SBA's commitment to expand the LDC program in urban areas is underway in 1977. SBA has contracted the marketing and loan packaging effort of this project to Sam Beard, President of the Development Council. The project will require the establishment of development companies in approximately 10 designated urban areas (e.g., Buffalo, N.Y.; Providence, R.I.; Denver, Colorado, Chicago, Ill. etc.) and the identification of small business projects for DCL financing.

#### Statement of Issue

Should SBA be permitted to expand the Development Company Loan program in 1977 and 1978 to revitalize urban and neighborhood areas?

#### Pros.

- Despite the fact that the DCL program has been used primarily in rural areas, SBA does have the statutory authority to expand the program into urban areas.
- DCL assistance can be coordinated with other types of Federal assistance (e.g., EDA grants) to focus on the development of urban areas.
- In view of the Congressional add-on of \$15M to the direct DCL program, no additional funding will be required in 1977 to conduct the proposed pilot project.

### Cons.

- The results of a recent GAO report on the DCL program indicated the following:
  - . SBA was not managing the program to further community economic development. The program was used as a substitute to assist small business when funding was limited in other SBA loan programs.
  - . LDC loans were not made to maximize the economic benefit of the loan.
  - . The program accomplishments in terms of actual jobs created had been overstated by SBA. The agency lacks an adequate system to evaluate the program.
- If development companies are a means to create employment in economically distressed areas, then the DCL program may be better managed by the Economic Development Administration.

### Alternatives

- #1. Permit the use of additional funds appropriated for the Development Company direct loan program in 1977 and expand direct and guaranteed loan levels as requested in 1978. Hold the expanded DCL program constant in future years. (Agency Request)
- #2. Propose a rescission of the Congressional add-on of \$15M in direct DCL funds provided in 1977. Hold the 1978 DCL program even with the level requested in the FY '77 budget, pending further OMB analysis of program termination or possible transfer to EDA.
- #3. Propose a rescission of the Congressional add-on of \$15M in direct DCL funds provided in 1977. Provide no funding for the direct and guaranteed loan programs in 1978, pending further OMB analysis of program termination or possible transfer to EDA. (OMB Recom.)

## Analysis

	1976		1977		1978		1979		1980		1981		1982	
Loan Level/Outlays (\$ in millions)	LL	0	LL	0	LL	0	LL	0	LL	0	LL	0	LL	0
Direct Local Development														
Company Loans:														
Alt. #1 (Agency req.)	26	11	35	13	55	18	55	18	55	18	55	18	55	18
Alt. #2 .....	26	11	20	6	20	6	--	--	--	--	--	--	--	--
Alt. #3 (OMB rec.) ...	26	11	20	6	20	4	--	--	--	--	--	--	--	--

### Agency Request

(Difference from Alt. #1 (Agency request)	1977 Outlays	1978 Outlays	1979 Outlays)
{ Alt. #3 (OMB rec.)	-7	-14	-18
{ Alt. #2	-7	-12	-18

Agency Request: Alternative #1. The agency is confident that the current urban pilot project will be successful in creating new incentives for neighborhood investment. The agency contends that direct funding in urban and neighborhood areas will attract stronger private sector involvement and cooperation to strengthen the tax base and employment condition of these areas.

Alternative #2. This alternative would permit the direct DCL program to operate at \$20M in 1977 and 1978. The major advantage of this alternative is that the DCL program effort would not be disrupted if the proposed program study concluded that SBA should continue to manage the DCL program

OMB Recommendation: Alternative #3. We are having difficulty in controlling and improving current SBA programs primarily due to the multiple roles and areas which SBA is required to participate in either because of administrative initiatives (e.g., urban revitalization) or new legislation (e.g., P.L. 94-305; assistance to the farm industry). The recent GAO study on the DCL program certainly raises serious questions as to whether SBA should have a role in the community development area. As stated in the Interim Report of the President's Committee on Urban Development and Neighborhood Revitalization, we concur that a "massive expansion of resources (including the DCL program) for central cities simply is neither feasible nor wise at this time." The Division's recommendation on the DCL program provides no funding for this program in 1978, pending further OMB analysis as to whether the program should be terminated or possibly transferred to EDA. We expect the analysis of the program to be completed so that action can be taken in FY '78.



ISSUE #2

Issue Paper  
Small Business Administration  
1978  
Issue #2: 7(a) Regular Business Loan Program

Background

The 7(a) direct and guaranteed loan programs are SBA's primary financial assistance programs. In 1976, 7(a) direct and guaranteed loans accounted for 84 percent of the total SBA business loan approvals. The 7(a) program is open to any small business which is unable to obtain financing in the private sector on reasonable terms. A direct loan can only be made if a guaranteed loan is unavailable.

Historically, over 50% of the 7(a) program dollars were distributed in direct categories until FY 1969, when the guaranteed program first passed \$300M and accounted for over 75% of the 7(a) program dollars. Since 1969, we have preferred to increase the 7(a) guaranteed loan program (1969: \$309M, 1976: \$1.5B); and closely control the direct loan program. Our concern with the direct loan program is its impact on outlays, its highly subsidized interest rate, the impact of the loan losses, and the need for additional SBA personnel to approve these types of loans. Conversely, Congress has favored the 7(a) direct loan program due to its low interest cost to the borrower and added \$95M to the requested loan level in 1977.

Our review of the 7(a) guaranteed loan program in 1976 noted a significant increase in the purchase of defaulted guaranteed loans, which grew from \$81M in 1973 to \$208M in 1976. We proposed and received a Presidential budget decision in 1977 to hold the guaranty program level to \$1.5B until SBA took the necessary and feasible actions to place the 7(a) guaranteed loan program on a self-sustaining basis. Although the 1977 guaranteed loan program level has been permitted to increase to \$2B, we are continuing to work with SBA to develop the necessary program and fee changes to place the program on a self-sustaining basis by January 1977.

Statement of Issue

Should both the 7(a) direct and guaranteed loan levels be restrained in 1977 and 1978 in order to control the cost of these programs?

Pros.

- There is no good programmatic reason for permitting the increase of the direct loan program in 1977 and 1978. In contrast, to the tight credit market of FY 1974-1975 when financing for small business was not readily available, the credit market in FY 1977 and

1978 is expected to continue to expand and make financing more readily available to small business.

- As long as Congress refuses to permit a full-cost recovery interest rate on direct loans as occurred in 1975, it will continue to be difficult to control the demand for low-cost loans and improve the loan loss rate.
- Efforts to place the 7(a) guaranteed loan program on a self-sustaining basis need to be tested prior to further expansion of the program. If these efforts are unsuccessful, consideration should be given to phasing down the program.

#### Cons.

- A policy to continue restraint of the 7(a) direct loan program in 1977 and 1978 would run the risk of significant add-ons to the requested loan level in 1978.
- With enactment of P.L. 94-305, the requirement to assist small businesses in the farm industry could increase the demand for both direct and guaranteed loan financing.
- The SBA Administrator strongly supports an expanded loan program to involve more bank participation. The Administrator was permitted to implement a pilot project in 1977 which accelerates the processing and approval of loan guarantees in 12 SBA districts.

#### Alternatives

- #1. Direct Loan Program: Permit the use of additional direct loan funds (+\$95M) provided by Congress in 1977. Raise the direct loan program in 1978 to \$135M. (Agency Request)

Guaranteed Loan Program: Expand the program from \$2B to \$2.5B in 1978 to meet the anticipated increase in bank demand which could result from the pilot effort in 1977 to accelerate loan guarantee approvals. (Agency Request)

#2. Direct Loan Program: Permit the use of additional direct loan fund (+95M) provided by Congress in 1977. Raise the direct loan program in 1978 to \$135M as proposed in Alternative #1, but require SBA to charge direct loan borrowers administrative fees to fully cover direct loan losses.

Guaranteed Loan Program: Hold the program in 1978 to the 1977 level of \$2B, pending complete review and analysis of efforts to place the program on a self-sustaining basis in 1977.

#3. Direct Loan Program: Propose a rescission of additional direct loan funds (+\$95M) provided by Congress in 1977 and require SBA to charge direct loan borrowers administrative fees as proposed in Alternative #2. (OMB Recom.)

Guaranteed Loan Program: Follow the same guaranteed loan strategy as proposed in Alternative #2. (OMB Recom.)

#### Analysis

	1976		1977		1978		1979		1980		1981		1982	
<u>Loan Levels/Outlays</u>	<u>LL</u>	<u>0</u>	<u>LL</u>	<u>0</u>	<u>LL</u>	<u>0</u>	<u>LL</u>	<u>0</u>	<u>LL</u>	<u>0</u>	<u>LL</u>	<u>0</u>	<u>LL</u>	<u>0</u>
<u>(\$ in millions)</u>														

#### 7(a) Loan Program:

##### Alt. #1 (Agency req.)

Direct .....	112	37	195	60	135	5	135	15	135	15	135	15	135	15
Guaranteed .....	1,550	208	2,000	210	2,000	200	2,000	200	2,000	150	2,000	50	2,000	--

##### Alt. #2

Direct .....	112	37	195	60	135	-3	135	7	135	7	135	7	135	7
Guaranteed .....	1,550	208	2,000	210	2,000	200	2,000	200	2,000	100	2,000	50	2,000	--

##### Alt. #3 (OMB rec.) ..

Direct .....	112	37	100	-7	135	-3	135	7	135	7	135	7	135	7
Guaranteed .....	1,550	208	2,000	210	2,000	200	2,000	200	2,000	100	2,000	50	2,000	--

### Agency Request

(Difference from Alt. #1 (Agency request)	1977 Outlays	1978 Outlays	1979 Outlays)
( Alt. #3 (OMB rec.)	-67	-8	-8
( Alt. #2	--	-8	-8

Agency Request: Alternative #1. The agency request attempts to provide the minimum direct loan level which may be acceptable to Congress, and emphasizes the expanded use of the guaranteed loan program to meet small business credit needs. SBA believes that the guaranteed loan level should be raised to accommodate legitimately approved bank loans which would otherwise be turned down due to lack of guaranty funding.

Alternative #2. The purpose for requiring SBA to charge administrative fees to cover direct loan losses is to make the program self-sustaining and to provide SBA with an incentive to reduce these administrative fees by making loans to those small businesses with a reasonable chance to succeed. Although we have been unsuccessful in 1975 in obtaining a statutory increase in the direct loan interest rate to cover loan losses, a preliminary review of the Small Business Act indicates that SBA is not prohibited from charging administrative fees to cover loan losses.

In view of the substantial costs of guaranteed loan purchases (\$208M) in 1976, we believe it would be premature to further expand the guaranteed loan level in 1978, until there is some assurance that SBA's efforts are adequate to make the guaranteed loan program self-sustaining. At least one year would be required following the implementation of program or fee changes to properly ascertain whether the cost of guaranteed loan purchases can be offset in future years.

OMB Recommendation: Alternative #3. The difference between this alternative and Alternative #3 is the proposed rescission of the additional direct loans (+\$95M) provided in 1977. The Division recommends the rescission of direct loans on the basis that current credit market conditions are conducive to meeting the financing needs of small business without the unrequested, low-cost direct loans. The total direct loan level (\$195M) enacted in 1977 grossly exceeds the direct loan level (\$139.5M) which was provided to small businesses in 1975 when the credit market was most constrained and unresponsive to the small business credit needs.

PROGRAM  
RECOMMENDATION

Small Business Administration

1978 Budget

Key To Abbreviations

P. L. - Program Level

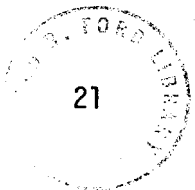
L. L. - Loan Level

D. P. - Direct Program

G. P. - Guaranteed Program

B. A. - Budget Authority

O. - Outlay



FY 1978 BUDGET  
Small Business Administration

#1: 7(a) Regular Business Loan Program (Refer to Issue #2)

Funding Levels (\$ in millions)									Personnel Levels (FTP)				
1976		1977				1978			1976	1977		1978	
Actual	Pres. Budget	Cong. Approp.	Agency Req.	OMB Recom.	Agency Total	Request In Ceiling	OMB Recom.		Actual	Agency Req.	OMB Recom.	Agency Req.	OMB Recom.
L.L.													
DP 112	100	195	195	100	135	95	135						
GP 1,550	2,000	2,000	2,000	2,000	2,500	2,000	2,000						
B.A. 267	400	495	495	400	510	395	435						
O. 245	200	270	270	203	205	177	197						

(Personnel cannot be distributed by loan program. Refer to activity on Loan Making and Servicing/Auditing Support).

Agency Request

Direct Loan Program

The 7(a) direct loan program is SBA's primary direct financial assistance activity. The program is open to any small business unable to obtain a term loan on a guaranteed basis from private lenders. Demand for 7(a) direct loans has been limited only by the availability of funds.

SBA's FY 1978 request for this program would reduce the loan level by \$60M below the level enacted in FY 1977, but would result in an increase of \$35M above the FY 1977 budget request. The basis for the request is primarily a compromise between the FY 1977 requested and enacted program levels. With enactment of P.L. 94-305, SBA is required to assist small farmers. The SBA request also reflects the anticipated need to meet demand for direct funds by small farmers.

Guaranteed Loan Program

Historically, the demand for the guaranteed loan program has been limited by bank interest in using the guarantee. Recent bank interest in the guaranteed loan program has increased significantly with relaxation of the tight credit market which occurred in FY 1974-1975.



As a result of an FY 1977 Presidential decision, we are continuing to work with SBA to take the necessary and feasible actions to place the 7(a) Guaranteed Loan program on a self-sustaining basis by January 1977. The SBA Administrator strongly supports an expanded guaranteed loan program and has implemented a pilot project in FY 1977 to accelerate the processing and approval of loan guarantees in 12 SBA districts.

SBA's FY 1978 request for this program would increase the guarantee authority level by \$500M above the FY 1977 requested and enacted program levels. SBA requests an expanded program based on (1) increased requests from banks for the SBA guaranty, (2) the newly eligible farmers and small home builders, and (3) the recent statutory increase in permissible loan size to \$500,000.

#### OMB Recommendation

##### Direct Loan Program

The Division recommendation for FY 1977 proposes a rescission of \$95M in direct loans which was added by Congress to the budget request. There is no good programmatic reason for permitting this increase in the direct loan program. In contrast to the tight credit market of FY 1974-1975 when financing for small business was not readily available, the credit market in FY 1977 is expected to continue to recover and expand.

The Division recommendation for FY 1978 accepts the requested 7(a) direct loan level contingent upon SBA implementing the necessary administrative fees to adequately cover direct loan losses. There is clearly no justifiable need to expand subsidized direct loan assistance to small businesses to improve competition in the marketplace. As long as Congress refuses to permit full-cost recovery interest rate on these loans, it will be difficult to control the demand for the low-cost loans. This recommendation would continue to risk strong action from Congress to add substantially to the program.

##### Guaranteed Loan Program

The Division recommendation holds guarantee authorization for FY 1978 to the level provided in FY 1977. Although a major effort is proposed by the SBA Administrator to stimulate bank interest in the program, we believe that further expansion in the program would be premature at this time until efforts to place the program on a self-sustaining basis have been thoroughly tested. The recommended level is also considered sufficient to meet the anticipated demand by small farmers and home builders.

FY 1978 BUDGET  
Small Business Administration  
#2: Displaced Business Loan/Non-Physical Disaster Loan Programs

Funding Levels (dollars in millions)									Personnel Levels (FTP)				
1976	1977				1978				1976	1977		1978	
Actual	Pres. Budget	Cong. Approp.	Agency Req.	OMB Recom.	Agency Total	Request In Ceiling	OMB Recom.		June 30 Actual	Agency Req.	OMB Recom.	Agency Req.	OMB Recom.
DBL													
L.L.													
DP 24	30	40	40	40	30	25	30		(Personnel can not be distributed by loan program. Refer to activity on Loan Making and Servicing/Auditing Support.)				
GP 1	2	2	2	2	2	2	2						
Non-Physical													
L.L.													
DP 43	80	80	80	80	80	65	80						
B.A. 67	110	120	120	120	110	90	110						
O. 71	62	67	67	67	75	69	75						

Agency Request

SBA's Displaced Business Loan (DBL) program provides financial assistance to small businesses which have been displaced by federally-aided construction projects, such as urban renewal or highway construction. SBA's non-physical disaster loan programs provide financial assistance to small businesses which need aid in complying with certain Federal or State statutes and regulations (e.g., Clean Air Act of 1970, Occupational Safety and Health Act of 1970, etc.) or to small businesses which have suffered economic injury as a result of shortages in energy producing materials.

Displaced Business Loan Program

SBA's FY 1978 request for direct DBL funding continues the program at the 1977 requested level or \$10M below the enacted level. SBA indicates that it is difficult to predict the impact of federally-aided construction programs on the DBL program but feels their request is not out of line with prior year program levels.

### Non-physical Disaster Loan Program

SBA's FY 1978 request for the non-physical disaster loan program continues a level program in line with the FY 1977 Presidential budget. The demand for Emergency Energy Shortage loan assistance has reduced significantly with a relaxation in the energy and material shortage crisis. However, SBA plans to increase assistance under the pollution control loan programs in accord with the President's directive upon enactment of P.L. 94-305, which requires SBA to make pollution loan assistance more accessible to small businesses.

### OMB Recommendation

#### Displaced Business Loan Program

The Division recommendation accepts both the requested direct and guaranteed DBL levels. The recommended DBL level of \$30M is considered appropriate in view of our analysis of the average DBL level which ranged from \$30M to \$34M over the last 5 to 10 years.

#### Non-Physical Disaster Loan Program

The Division recommendation provides funding for the non-physical disaster loan programs at the level proposed by SBA. It is hoped that broader use of the pollution control loan programs will reduce the demand for pollution control guarantees of tax-exempt bonds through SBA's new pollution control guarantee program. (Refer to Budget Recommendation #5 on pollution control assistance).

FY 1978 BUDGET  
Small Business Administration  
#3: Handicapped Assistance Loan Program

Funding Levels (\$ in millions)									Personnel Levels (FTP)				
1976	1977				1978				1976	1977		1978	
Actual	Pres. Budget	Cong. Approp.	Agency Req.	OMB Recom.	Agency Total	Request In Ceiling	OMB Recom.		June 30 Actual	Agency Req.	OMB Recom.	Agency Req.	OMB Recom.
HAL													
L.L.													
DP 10	10	20	20	20	10	10	10		(Personnel cannot be distributed by loan program. Refer to activity on Loan Making and Servicing/Auditing Support).				
GP 1	30	30	30	30	10	30	10						
B.A. 10	13	23	23	23	10	13	10						
O. 6	7	13	13	13	6	6	6						

Agency Request

SBA's Handicapped Assistance Loan program provides loan assistance with a very low direct loan interest rate (3%) to handicapped persons owning small firms and to nonprofit organizations hiring the handicapped (e.g., Goodwill Industries).

SBA's FY 1978 request for the HAL direct loan level is \$10M below the FY 1977 appropriated level. SBA proposed the reduced HAL direct loan level in view of the substantial interest subsidy provided in the program. The reduced HAL guaranteed loan level is proposed as a more realistic level in view of the reluctance of lending institutions to participate on a guaranteed loan basis in this loan program.

OMB Recommendation

The Division recommendation accepts the SBA request for both direct and guaranteed HAL funding. Given the low direct loan interest rate, the HAL program is considered primarily as a means to provide a welfare subsidy to the handicapped. The program was not intended to stimulate small business owned by handicapped persons. Although the objective of the program may be valid, it is considered more appropriate to provide such assistance to the handicapped as a part of other social or rehabilitation programs rather than through the HAL program.

FY 1978 Budget  
Small Business Administration  
#4: Small Business Investment Company Assistance Program

Funding Levels (\$ in millions)									Personnel Levels (FTP)				
1976	1977				1978				1976	1977		1978	
Actual	Pres. Budget	Cong. Approp.	Agency Req.	OMB Recom.	Agency Request Total	Request In Ceiling	OMB Recom.		June 30 Actual	Agency Req.	OMB Recom.	Agency Req.	OMB Recom.
SBIC													
L.L.													
GP	23	150	150	150	150	150	100		(Personnel cannot be distributed by loan program. Refer to activity on Loan Making and Servicing/Auditing Support).				
B.A.	2	15	15	15	15	15	10						
O.	-	-	-	-	-	-	-						

Agency Request

SBA's Small Business Investment Company Assistance program provides equity, venture and long-term debt financing to small business through privately-owned investment companies (SBICs) which are licensed, regulated, and funded by SBA. SBICs are capitalized by private funds and by loans from SBA through the purchase of subordinated debentures.

SBA's FY 1978 request for SBIC funding continues the program at the same annual level that has been consistently requested in the Presidential budget since FY 1975. SBA readily admits that it is difficult to predict the annual amount of guaranteed debentures that will be requested by active SBICs, due to the variability in the financial activity of SBICs. SBA anticipates increased SBIC activity in FY 1978 as a result of the provision in the recently enacted small business omnibus bill (P.L. 94-305) which permits SBICs to obtain an additional tier of funding leverage from SBA to match private invested capital in SBICs.

OMB Recommendation

The OMB recommendation reduces the requested SBIC level by \$50M. Our review of the actual SBIC guarantee loan level from FY 1972-1976 indicates an average level of \$50M, with the maximum level of \$64M committed in FY 1974. In view of the historical shortfall of actual SBIC levels as compared to budget levels (e.g. FY 1974: -\$18M, FY 1975: -\$103M, and FY 1976: -\$127M), the recommended SBIC level is considered sufficient to meet the anticipated demand which could result from recent legislation.

# FY 1978 BUDGET

## Small Business Administration #5 : Development Company Loan/Surety Bond, Pollution Control, and Lease Guarantee Programs Funding Levels (dollars in millions) Personnel Levels (FTP)

	1976	1977				1978			1976	1977		1978	
	Actual	Pres. Budget	Cong. Approp.	Agency Req.	OMB Recom	Agency Total	Request In Ceiling	OMB Recom	Actual	Agency Req.	OMB Recom.	Agency Req.	OMB Recom
<u>DCL</u>													
DP	26	20	35	35	20	50	10	-	98	98	98	143	98
GP	11	41	41	41	41	45	41	-					
<u>Surety</u>													
GP	781	750	750	750	750	900	750	750					
<u>Pollution</u>													
GP	-	-	40	40	40	200	-	100					
<u>Lease</u>													
BA	-	3	3	3	3	4	3	4					
O	3	3	3	3	3	3.4	3	3.4					
<u>Total</u>													
BA	39	66	96	96	81	81	38	24					
O	33	31	38	38	31	42	37	28					

### Agency Request

#### Development Company Loan (DCL) Program (Refer to Issue #1)

The DCL program provides loan assistance to small business through State and local development companies to increase local job opportunities and promote economic development. The SBA request for FY 1978 increases the direct DCL program by \$15M and \$30M above the respective levels provided by Congress and requested in the FY 1977 Presidential budget. This request includes a \$4M increase above both the 1977 requested and enacted levels for DCL guaranteed loans. This proposed expansion of the DCL program is based on the priority objective of the SBA Administrator to revitalize urban and neighborhood areas. It is also considered by SBA as a major initiative of the President's Committee on Urban Development and Neighborhood Revitalization.

#### Surety Bond Guarantee (SBG) Program

The SBG program assists small contractors to obtain the surety bond necessary to permit them to bid on public and private procurement contracts. In participation with surety bond companies, SBA guarantees 90 percent

of all losses which might be incurred by the participating surety company as a result of a small business default on a surety bond. The SBA request for FY 1978 increases the SBG program by \$150M above both the FY 1977 President's request and enacted levels. The requested expansion of the SBG program is based on SBA's desire to handle the increasing bonding demand of small contractors which is not met by the private bonding market.

#### Pollution Control Guarantee Program

This SBA program was recently established with enactment of P.L. 94-305. The purpose of the program is to aid small business in financing pollution control facilities through the Federal guarantee of tax-exempt bonds. SBA intends to "pool" the pollution control financing needs of several small businesses and guarantee large bond issues of \$5M and up. Given the inherent difficulties of implementing a new program and forecasting the annual activity, SBA requests authority to guarantee \$200M in bond issues in FY 1978. This request would provide the financing from 40 tax-free bonds to assist 500 small firms. Congress provided \$15M in appropriation for this program in FY 1977, and no additional appropriation is required to implement the requested bond guarantee level in 1978. SBA proposes implementing a fee structure which would reduce outlays by \$6.7M in FY 1978.

#### Lease Guarantee Program

This program was discontinued in FY 1976 but SBA must continue to service 1,200 outstanding lease guarantees and fund small business defaults on rental payments. SBA's FY 1978 request for this program is \$4M to fund expected lease guarantee losses. This request is \$1M above the amount requested for FY 1977.

#### Employment

SBA's Office of Community Development handles all programs in this activity. Additional personnel are requested for the following programs:

DCL: (+15) Field positions are requested to handle the expected program activity resulting from the proposed urban revitalization efforts.

SBG: (+20) Field positions are requested to improve the quality and decrease the amount of underwriting workload to minimize program losses.

#### Pollution

Control (+10) Central office positions are requested to fully implement and operate the newly authorized program.

## OMB Recommendation

### Development Company Loan Program

The Division recommends a rescission of \$15M in direct DCL funding which was added by Congress in 1977. In view of the recent GAO study on the DCL which concluded that the program was not managed to meet the objectives of community development, we believe an expansion of the DCL program would be inappropriate. The recommendation for 1978 does not provide any direct or guaranteed DCL funding pending the completion of a study by OMB to determine whether the program should be phased out or continued by another agency (e.g., EDA).

### Surety Bond Guarantee Program

Despite several measures to control the SBG program such as decreasing the Federal exposure to 80% on bonds above \$250,000, we are concerned that the demand for surety guarantees will not be controlled until appropriate objectives are established for the program. Pending a completion of a comprehensive study on appropriate objectives for the program, it is recommended that funding be continued in FY 1978 at the level of \$750M in FY 1977. It is also recommended that legislation be submitted to initiate a statutory change in the Miller Act of 1935, which requires all Federal construction contracts above \$2,000 to be bonded. A legislative change to raise this bonding threshold to \$25,000 could obviate the need for bonding small contracts and could eliminate as much as half of the SBG activity.

### Pollution Control Guarantee Program

The feature in this program which provides a Federal guarantee of tax-exempt securities is highly undesirable. In the President's signing statement on P.L. 94-305, SBA was directed to work with Congress to develop a more effective and less costly method to assist small business with pollution control financing difficulties. SBA proposes testing the feasibility of the program as enacted by Congress prior to approaching Congressional committees with alternative methods of financing pollution control facilities. The Division recommendation reduces the requested level for FY 1978 by \$100M in order to provide a minimum level necessary for testing the new program. We also recommend that SBA should be specifically directed to complete an evaluation of the new program prior to consideration for additional guarantee authority in FY 1979.

### Lease Guarantee Program

The Division recommendation meets the amount of funding requested for FY 1978. We understand that some outstanding lease guarantee commitments may be settled on a negotiated one-time basis and could result in potential savings over the next twenty years if buy-outs were effected in the short term. SBA will study this possibility in FY 1977.



### Employment

In view of our concern to control the DCL and SBG programs and to test the Pollution Control Guarantee program, we recommend that no additional positions should be provided for these programs. Although SBA claims that it does not overtly expand the demand for surety bond guarantees, a recent pilot project to decentralize and supplement the underwriting staff in a SBA region resulted in increasing guarantee commitments by 8 percent above the national average. Based on the current operations of the SBG program, we conclude that additional staff would increase the difficulty of controlling the program.

FY 1978 BUDGET  
Small Business Administration  
#6 : Management Assistance

Funding Levels (\$ in millions)								Personnel Levels (FTP)				
1976	1977				1978			1976	1977		1978	
Actual	Pres. Budget	Cong. Approp.	Agency Req.	OMB Recom.	Agency Total	Request In Ceiling	OMB Recom.	Actual	Agency Req.	OMB Recom.	Agency Req.	OMB Recom.
P.L. 12.7	13.7	13.7	14.5	14.5	21.6	14.5	16.5	454	508	508	638	508
B.A. 12.7	13.7	13.7	14.5	14.5	21.6	14.5	16.5					
O. 12.7	13.7	13.7	14.5	14.5	21.6	14.5	16.5					

Agency Request

SBA Management Assistance (MA) programs provide counseling services, training seminars, pre-business workshops and publications to aid both SBA borrowers and nonborrowers. These programs include the Service Corp of Retired Executives (SCORE), Active Corp of Executives (ACE), Small Business Institute (SBI) and management support services. During 1977, SBA has been permitted to conduct a pilot project which establishes University Business Development Centers (UBDC) in 10 universities to leverage and coordinate other Federal programs and university resources in meeting the management counseling needs of small businesses.

SCORE/ACE

SBA requests SCORE/ACE travel funds of \$1.8M or an increase of \$900K above the 1977 level. While SCORE/ACE members are volunteers, they are entitled to travel and out-of-pocket expenses in counseling small business clients. The requested increase in travel funds is based on the SBA effort to expand SCORE membership and new counseling areas such as energy conservation, international trade, crime loss prevention, etc.

Small Business Institute

SBA strongly supports expanding SBI contracts from \$1.8M in 1977 to \$3M in 1978. SBA completed an SBI study in 1977 which indicated that the program provided "highly effective" counseling (client employment increased by 12.5 percent) at "exceptionally low cost" (\$2.35 per counseling hour). Based on the results of this study, SBA claims that major program expansion is justified.

University Business Development Centers

SBA requests that the 1977 UBDC pilot project be expanded from \$350K to \$2M in 1978. Without any benefit of an evaluation of the pilot project, SBA requests that UBDCs be expanded to 25 universities in 1978. A nationwide UBDC program is envisioned for 1979 which would involve principle UBDCs in every state.

### Foreign Trade Program

SBA requests an additional 14 positions and \$200K to develop a major foreign trade program which would identify and match small business exporters with foreign trade opportunities.

### Employment

SBA requests a total increase in employment for this function from 508 to 638 positions or an increase of 130 positions. While lacking any work measurements for this function, SBA claims the additional positions are necessary to support the proposed expansion of the management assistance programs in 1978.

### OMB Recommendation

Although SBA completed several MA program studies in 1977, the study results have largely been self-serving and have not adequately demonstrated the impact of SCORE/ACE, SBI, or direct SBA management assistance in improving the viability of the small business client. SBA is currently planning a major MA program evaluation to be completed by an outside contractor prior to the FY 1979 budget process.

The Division recommendation provides an increase in SCORE/ACE travel funds of \$500K to meet increased travel costs. The recommendation holds the SBI, UBDC, and Foreign Trade programs to the 1977 level pending the completion of the major MA program evaluation and results of the pilot projects in 1977. Although the employment level was increased in 1977 by 54 to improve the loan portfolio, we recommend holding the MA employment level in 1978 to the current level until adequate work measurement systems have been developed to justify staffing increases.

# FY 1978 BUDGET

Small Business Administration #7: Procurement Assistance									Personnel Levels (FTP)				
Funding Levels (dollars in millions)													
	1976	1977				1978			1976	1977		1978	
	Actual	Pres. Budget	Cong. Approp.	Agency Req.	OMB Recom	Agency Total	Request In Ceiling	OMB Recom	Actual	Agency Req.	OMB Recom.	Agency Req.	OMB Recom
P.L.	5.6	5.9	5.9	5.9	5.9	6.4	5.9	6.2	185	185	185	194	185
B.A.	5.6	5.9	5.9	5.9	5.9	6.4	5.9	6.2					
O.	5.6	5.9	5.9	5.9	5.9	6.4	5.9	6.2					

## Agency Request

SBA's Procurement Assistance programs are to insure that small businesses obtain a fair proportion of Federal contracts and subcontracts. These programs include providing procurement counseling, maintaining a small business bidding appeal process, monitoring major Federal procurement centers for prime and subcontracts, and maintaining a source file of capable and available small business contractors. SBA also administers programs to assist small business in obtaining a fair proportion of Government timber sales (Property Sales program) and in obtaining available technological advances resulting from Federally-financed R&D (Technology Assistance Program).

SBA requests 2 additional positions for the Property Sales program and 7 additional positions for the Technology Assistance program. The agency request also includes an increase of \$160K in travel expenses to permit broader liaison with procurement installations.

## OMB Recommendation

The OMB recommendation holds the personnel level of this activity to the FY 1977 level and provides the full request for travel expenses. The Property Sales program has recently been expanded to include the set-aside of Federal contracts for sales of mineral, fossil fuel, and surplus property. Restraint of the personnel level is considered appropriate to avoid the proliferation of SBA procurement activities in a multitude of sub-categories of procurement contract areas. Interagency agreements with SBA and NASA, ERDA, and NTIS <sup>1/</sup> seem adequate to transfer technology assistance to small R&D firms without the need for the requested positions.

An analysis provided by SBA demonstrated that procurement center representatives (PCR) can have an appreciable impact on increasing set-aside contract opportunities for small business. The recommended increase in travel would permit PCRs to initiate surveillance activities on a broader scale at major procurement installations.

<sup>1/</sup> National Technical Information Service.

FY 1978 BUDGET  
Small Business Administration

#8: Programs to Assist Socially and Economically Disadvantaged Individuals

	Funding Levels (\$ in millions)					Personnel Levels <sup>1/</sup> (FTP)				
	1976	1977				1976	1977			
	Actual	Pres. Budget	Cong. Approp.	Agency Req.	OMB Recom.	Actual	Agency Req.	OMB Recom.	Agency Req.	OMB Recom.
L.L.										
EOL-DP	54	55	60	60	60	55	55	55	305	325
GP	28	74	74	74	74	50	74	50		
MESBIC-DP	9	20	20	20	20	20	20	20		
P.L.										
406	5	8	8	8	8	8	8	8		
BDE	8	12	12	12	12	13.5	12	12		
S&E	6.7	7	7	7	7	8.1	7	7.7		
B.A.	93	132	137	137	137	124	132	123		
O.	57	89	93	93	93	91	89	90		

<sup>1/</sup> Positions indicated are for the 8(a) procurement program and the Office of Minority Small Business.

Agency Request

These SBA programs are specifically designed to provide financial, procurement, and management assistance to socially and economically disadvantaged individuals. These programs include the Economic Opportunity Loan (EOL), Minority Enterprise Small Business Investment Company (MESBIC), Call Contract (section 406), 8(a) Procurement Assistance, Business Development Expense (BDE), and the administrative support services of the Office of Minority Small Business.

Economic Opportunity Loan Program

SBA requests a EOL direct loan level of \$55M or \$5M below the 1977 enacted loan level. Although Congress added \$5M to the EOL direct loan program in 1977, SBA requests the reduced level for 1978 to remain within the total outlay ceiling. SBA requests a EOL guaranteed loan level of \$50M or \$24M below both the 1977 requested and enacted levels. The reduced EOL guaranteed loan level is proposed as a more realistic level in view of the reluctance of lending institutions to participate on a guaranteed loan basis in this program.

#### 8(a) Procurement Assistance Program

For FY 1978, an increase of \$600K is proposed to support an additional 70 positions. SBA claims these requested positions are necessary to (1) provide adequate counsel, guidance, and monitoring of 8(a) clients and (2) support the new concept of "Account Executives" which would test the impact of providing minority business clients with coordinated SBA program assistance. The SBA request also includes an increase in Business Development Expense (BDE) from \$12M to \$13.5M. BDE is a fixed differential between the fair market price of a contract and the 8(a) contractor's bid on that contract. SBA claims that the requested increase in BDE is related to inflationary costs in completing procurement contracts and is necessary to maintain a standard level of BDE.

#### MESBIC Program

SBA has proposed to continue the MESBIC program at both the 1977 requested and enacted levels of \$20M. SBA has been directed to complete a comprehensive review of this program in FY 1977. The results of the study are expected to improve the program in meeting the venture capital needs of minority small business.

#### Minority Small Business Office

SBA requests an additional 31 positions for this Office to further coordination of SBA's minority business programs and to implement the Account Executive project in all SBA regions.

#### OMB Recommendation

##### Economic Opportunity Program

The Division recommendation accepts both the direct and guaranteed levels as requested for this program. SBA has been requested to develop improved credit criteria for acceptance of EOL applications in order to provide assistance to those minority firms which have a reasonable chance to succeed. Pending the completion of these improvements in the EOL program, it is considered premature to expand or reduce the requested loan levels in 1978.

#### 8(a) Procurement Assistance Program

The Division recommendation for FY 1978 provides an additional 10 positions and continues the BDE level at the FY 1977 level. The additional positions are considered necessary to enable the business development field staff to develop 8(a) clients into viable competitive businesses by conducting closer reviews, monitoring contract performance, and implementing the Account Executive concept on a trial basis. The BDE was increased

in FY 1977 from \$8M to \$12M. Further increases in BDE as proposed for FY 1978 would encourage a broader demand for and reliability on the subsidizing of 8(a) contracts.

#### MESBIC Program

The Division recommendation for FY 1978 provides funding for the MESBIC program at the requested level of \$20M. Our recent review of this program indicates that the program could be improved by establishing long-run objectives and developing the necessary strategies to carryout these objectives. We expect that SBA's study of this program will address this issue.

#### Minority Small Business Office

The Division recommendation for FY 1978 provides an additional 10 positions for this Office to implement the proposed Account Executive concept on a trial basis. SBA has closely coordinated an evaluation plan of this concept with us. "Account executives" would be a principle point of contact in the field for minority small business clients. Their principle responsibility would be to identify and resolve problems and needs of the minority client after SBA assistance has been provided.

FY 1978 BUDGET  
Small Business Administration  
#9: Loan Making and Servicing/Auditing Support Programs

	Funding Levels (\$ in millions)								Personnel Levels (FTP)				
	1976	1977				1978			1976	1977		1978	
	Actual	Pres. Budget	Cong. Approp.	Agency Req.	OMB Recom.	Agency Total	Request In Ceiling	OMB Recom.	Actual	Agency Req.	OMB Recom.	Agency Req.	OMB Recom.
P.L.	35.3	38.7	38.7	38.7	38.7	42.1	38.7	40.3	1,846	1,887	1,887	2,045	1,921
B.A.	35.3	38.7	38.7	38.7	38.7	42.1	38.7	40.3					
O.	35.3	38.7	38.7	38.7	38.7	42.1	38.7	40.3					

Agency Request

These SBA programs provide financial assistance support and internal/external agency audit services. SBA's FY 1978 request for these support programs includes an increase in funding of \$3.4M and employment of 158 positions. Requested increases in funding are primarily for salaries and benefits of additional personnel (+\$2.1M). Basis for employment request is as follows:

- Loan Making - (+50) Request for loan processing staff to handle the increasing number of business and disaster loans. SBA indicated that the additional positions are considered necessary to process and approve over 6,000 direct loans and 20,000 guaranteed loans in FY 1978.
- Loan Servicing-(+81) Request for loan portfolio management and servicing staff to handle the agency's total loan portfolio which is estimated in FY 1977 at 246,000 outstanding loans with a value of \$8B. SBA provided a comparison of the 1972 and 1976 portfolio management workload which indicated that the number of loan cases per employee had risen from 97 to 172 or an increase of 77%.
- Auditing Support-(+27) Request for staff to perform (1) internal audits of major programs, (2) external audits of contracts under management and procurement programs, and (3) investigations of reports of possible fraud or violation of Federal regulations and statutes.

OMB Recommendation

The Division recommendation provides funding for 34 additional positions to be assigned to loan portfolio management (+20) and auditing support (+13) functions. One additional position is provided for an actuary to conduct necessary actuarial studies to place the 7(a) Guarantee Loan program on a self-sustaining basis.



A recent GAO evaluation of SBA's loan servicing function concluded that a key reason for SBA's inability to provide a fully effective loan servicing effort was attributable to the heavy loan caseload. A separate GAO evaluation of SBA's audit activities concluded that auditing performance was satisfactory, but additional staff were needed to decrease the excessively long audit cycle and include more SBA district offices in the program audits. Until adequate work measurement have been completed for the loan servicing and audit support functions, the recommended increase in employment is considered the minimum level necessary to maintain the integrity of the agency's loan investment and program performance.

While SBA has consistently requested employment increases for loan making activities, we believe that additional positions should not be provided until adequately justified with work and productivity measurement systems. The agency plans to develop these systems in FY 1978.

FY 1978 BUDGET  
Small Business Administration  
#10: Other Administrative Support Programs

Funding Levels (\$ in millions)								Personnel Levels (FTP)				
1976	1977				1978			1976	1977		1978	
Actual	Pres. Budget	Cong. Approp.	Agency Req.	OMB Recom.	Agency Request Total	In Ceiling	OMB Recom.	Actual	Agency Req.	OMB Recom.	Agency Req.	OMB Recom.
P.L. 44.5	48.2	48.2	48.2	48.2	53.9	48.2	50.5	1,451	1,451	1,451	1,555	1,457
B.A. 44.5	48.2	48.2	48.2	48.2	53.9	48.2	50.5					
O. 44.5	48.2	48.2	48.2	48.2	53.9	48.2	50.5					

Agency Request

These SBA programs consist of support functions such as Administration, General Counsel, Operations, Advocacy, Civil Rights, etc. SBA's FY 1978 request for these support programs includes increases in funding of \$5.8M and employment of 104 positions. Requested increases in funding are primarily for salaries and benefits additional personnel (+\$1.3M), rental payments to GSA for space (+\$1.5M), and travel expenses (+\$.5M). Employment requests by program are as follows:

General Counsel - (+40) Request for field positions to provide legal support in loan processing, loan administration, loan liquidation and litigation activities.

Advocacy and Public Affairs - (+36) Request for field advocates to be assigned in 22 major offices. Field advocates would function as liaisons and coordinators with Federal agencies, state and local governments, and business organizations on small business issues, problems, and interests.

Civil Rights - (+17) Request for field contract compliance staff to conduct compliance review of assigned construction sites. This request was made prior to notification by Labor that the SBA construction compliance activity was proposed to be transferred to HUD as a part of the compliance consolidation effort approved by OMB.

Administration - (+11) Request for 6 positions to staff a new Organization and Methods Division which would develop and implement productivity standards, workload measurement systems, and integrated work systems. The remaining 5 positions would be assigned in the agency's Personnel Office.

### OMB Recommendation

The Division recommendation provides funding for 6 positions as requested to staff the new Organization and Methods Division. While SBA has consistently requested significant increases in personnel for support programs, adequate work and productivity measurement systems are lacking to justify requested increases in employment. The recommended increase in employment would provide SBA with the necessary resources toward developing useful measurement systems. The recommendation reduces the requested increase in travel to \$250,000. The requested increase in rental payments to GSA is reduced by \$300K in line with the recommended employment level.

The EG Division recommends against Labor's proposed transfer of the SBA construction compliance activity required by E. O. 11246. SBA is required by other authorities (e.g. Equal Credit Opportunity Act, Title VI of Civil Rights Act, Disaster Relief Act, etc.) to perform compliance reviews which would include construction sites of loan recipients. The proposed transfer of SBA's activity under E.O. 11246 to HUD would run counter to the objective of the compliance consolidation effort in that two agencies could be required to monitor construction sites of SBA loan and surety bond guaranty recipients.

EMPLOYMENT

# Small Business Administration

## 1978 Budget

### Full Time Permanent Employment Data

				1978		Change 1977-1978	
	1976 Actual	1977		Request			
		Request	Recom.	Total	Within Ceiling	OMB Recom.	
Loan Making and Servicing/Auditing	1,846	1,887	1,887	2,045	1,887	1,921	+ 34
General Administration	1,451	1,451	1,451	1,555	1,451	1,457	+ 6
Management Asst	454	508	508	638	508	508	
Asst. to Socially and Economic Disadvantaged	305	305	305	375	305	325	+ 20
Procurement Asst	185	185	185	194	185	185	
Community Development/Surety Bond Guaranty	98	98	98	143	98	98	
Total Full-time perm	4,339	4,434	4,434	4,950	4,434	4,494	+ 60
Other than permanent	484	330	330	330	330	330	
Total Employment	4,823	4,764	4,764	5,280	4,764	4,824	+ 60