to 7(j) eligible firms nationwide. The assistance was provided through face-to-face training. Web-based seminars and DVDs were provided to those firms that could not attend the face-to-face sessions.

Surety Bond Guarantee Program

Table 28.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.								
LTO	SBG Key Performance Indicators [a]	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2	Bid Bonds: Existing SB (Number)	Output	N/A	N/A	3,998	5,408	3,508	-35% R
2.2	Final Bonds: Existing SB (Number) [b]	Output	N/A	N/A	1,680	2,317	1,706	-26% R
2.3	Bid Bonds: SCOG (Number)	Output	N/A	N/A	931	1,382	953	-31% R
2.3	Final Bonds: SCOG (Number) [c]	Output	N/A	N/A	530	777	638	-18% R
Small Businesses Assisted [d]			N/A	N/A	1,680	2,317	1,706	N/A [e]

SBG Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$3,666	$3,818	$4,882	$4,608	$7,006

SBG Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Bid Bond ($)	N/A	N/A	$1,221	$852	$1,997
Per Final Bond ($)	N/A	N/A	$2,906	$1,989	$4,107

[a] Final bonds represent the actual bonds guaranteed by the SBA and equates to the number of businesses assisted.
[b] New indicator for FY 2005.
[c] Ibid.
[d] This is equal to the number of existing businesses receiving bonds. Surety bonds program is limited to existing business.
[e] The total is used only to calculate the unit cost. It does not constitute a performance indicator.

The SBA did not meet its FY 2006 surety bond goals, which were very aggressive. The FY 2006 goal represented a 35% increase over FY 2005 actual program activity. Other factors that negatively affected the achievement of surety bond goals were: a 30% surety fee increase; a decrease in Preferred Surety Bond Program activity that resulted from an earlier program shutdown and an obsolete rate cap on these sureties; and limited marketing and outreach.

During FY 2006, the SBA began the development and implementation of the following program improvements: an electronic application processing system; a reorganization of the surety bond Area Offices; a regulatory change that removes a 1987

rate cap on Preferred Surety Bond sureties and increases the guarantee percentage for veteran-owned and service-disabled veteran-owned businesses; a re-engineering of claims processes and more intensive marketing and outreach efforts.

Goals Not Met

Indicator: Bid Bonds: Existing SB (number)		
Target	**Result**	**Below Target by**
5,408	3,508	-35%
Indicator: Final Bonds: Existing SB (number)		
Target	**Result**	**Below Target by**
2,317	1,706	-26%
Indicator: Bid Bonds: SCOG (number)		
Target	**Result**	**Below Target by**
1,382	953	-31%
Indicator: Final Bonds: SCOG (number)		
Target	**Result**	**Below Target by**
777	638	-18%
Reasons for performance result		
The Surety Bond Guarantee program has been affected by significant events that have had an impact on production performance. In FY2005, the preferred security program was shut down as legislative authority for the program expired and was not reinstated for several months. Several significant producing companies in the preferred security program chose not to resume operations with SBA when the program was reinstated which continued to have an impact in FY2006. In addition, a fee increase was implemented in FY2006 that further depressed activity this year.		
Steps being taken to improve performance or targets		
The SBA has set goals for FY2007 in the surety bond program more in line with production in FY2005 and FY2006. Further, a number of initiatives including an electronic application and regulatory changes governing fees a surety company may charge should have a positive impact making more bonds available to small businesses in FY2007.		
Impact of result		
The SBA's actual production in FY2006, while not meeting the goaled established for FY2006, did exceed FY2005 in most all categories.		

SUCCESS STORY

SBA "Trusses" Business by Bonding It

Marty Hortman is President and owner of Metalite Inc., a Georgia-based fabricator and erector of metal roof trusses for commercial buildings. His company, based in Oakwood, Georgia, has used the SBA's Surety Bond Program for performance bonds on several million dollars in roofing contracts over the past year alone.

"The SBA's Surety Bond Program has definitely worked for us. I would recommend the program to other small building contractors." says Hortman

The U.S. Small Business Administration's Surety Bond Guarantee Program is catching on fast with small contractors that have reached the size where bonding is critical to winning a government contract or a subcontract with a major construction company.

Hortman started his career in the home construction business in 1977 in Douglas County. For several years he did home remodeling in Douglas County before starting his own roof truss design and engineering company in 1985. Later in 1989, he established Metalite Inc., and began to specialize in truss systems for commercial warehouses, shopping centers and other commercial buildings.

Metalite posted sales of about $2.5 million in 1998. This year, the company expects to reach nearly $12 million in sales, with a backlog of several dozen jobs stretching from Mississippi into North Carolina and the Florida Panhandle.

Metalite Inc. got its SBA guaranteed bonds through The Surety Group, a commercial bonding company in Atlanta. For Hortman, the SBA-backed performance bonds covered Metalite's work in Georgia and several other states. These bonds ensure that the company pays subcontractors, related suppliers and successfully completes the project.

TARGETED ASSISTANCE

Targeted Assistance					
Targeted Assistance Budgetary Resources	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Actual**	**FY 2006 Budget**	**FY 2006 Actual**
PRIME Technical Assitance [a]	$4,558	$5,105	$5,063	$2,154	$1,926
National Women's Business Council [a]	$917	$953	$701	$890	$831
Native American Outreach [a]	$2,536	$4,440	$3,530	$4,347	$3,739
Veteran's Business Corporation [a]	$1,729	$3,167	$3,253	$3,009	$3,590
Small Business Training Network [a]	$0	$1,379	$204	$309	$268
Total Targeted Assistance ($000) [b]	$9,740	$15,044	$12,752	$10,709	$10,354

[a] Indicators have not been identified for these programs.
[b] Data source is being evaluated; consequently no indicators are provided.

Some of the SBA's programs focus on specific small business populations that face special competitive opportunity challenges. Three of these programs are the Native American Outreach Program, the Veterans Business Development Program and the Center for Faith-Based and Community Initiatives.

Native American Outreach

The Office of Native American Affairs is charged with providing assistance to American Indians, Alaska Natives, Native Hawaiians, and the indigenous people of Guam and American Samoa. SBA loan guarantees and technical assistance services are available to members of these constituencies living in urban areas and certain rural communities; but for members living in Indian Country, actual reservation communities where the land is held in trust by the Federal Government, the SBA services provide marginal value at best. In addition to the issue of land ownership, most tribes are located in remote regions of the country, far removed from major metropolitan areas and the potential customers for products and services.

The SBA, in recognition of the broad, strategic challenges facing tribal leaders and decision makers, has embarked upon an initiative to create a web-based "Self Assessment Tool" designed to guide tribal leaders through a series of questions that will identify areas of strength where tribes are likely to enjoy a better chance of success and areas of weakness which require attention or abandonment of investments in business sectors where those weaknesses would threaten success.

The initiative began in earnest late in the third quarter of FY 2006. Through the use of a primary contractor, the SBA has convened an Initiative Oversight Committee made up of approximately 30 people, mostly of Native descent and coming from a wide geographic area. The process will better equip tribes to make informed decisions and enable the Agency to develop relationships with tribes and Indian entrepreneurs seeking specific services.

Veterans Business Development

The mission of the SBA Office of Veterans Business Development is to conduct comprehensive outreach to veterans, service-disabled veterans and Reserve and National Guard small business owners; to formulate, execute and promote policies and programs of the Administration; and to act as an ombudsman for full consideration of veterans in all programs of the Administration.

In carrying this out, the SBA offers programs and services designed to assist small business owners and entrepreneurs in starting, managing and growing successful small business concerns that are a source of competitive American strength in

the global economy. The office operates its National Outreach Initiative through direct service delivery, through utilization of funding agreements with resource partners, through coordination of outreach and service delivery with other federal agency partners, and through development of Agency program initiatives.

Faith-Based and Community Initiatives

Faith-based and other community organizations have long performed a critical service by helping people in need. The SBA Center for Faith-Based and Community Initiatives works to help these groups access SBA and Federal Government services and products.

A principal strategy is to reach out to assist these groups in identifying programs and services that will expand their capacity to serve their communities. As part of its outreach effort, in FY 2006, SBA district offices held over 2,300 workshops and meetings attended by more than 200,000 people. The office participated in regional conferences across the Nation and worked with SCORE to help build capacity among non-profit organizations, both secular and faith-based.

DISTRICT OFFICES MARKETING AND OUTREACH

Table 29.

Performance Statement
Program Level Assistance
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps.

LTO	District Office Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.1, 2.2, 2.3	Lender Training (Number of Lenders) [a]	Output	N/A	N/A	18,926	8,879	15,448	74% B
2.1, 2.2, 2.3	Marketing and Outreach (Number of Activities) [b]	Output	N/A	N/A	479,098	308,779	460,869	49% B

District Office Budgetary Resources [c]	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Lender Training Total Program Cost ($000)	$0	$0	$10,126	$9,215	$6,088
Marketing and Outreach Total Program Cost ($000)	$41,500	$71,938	$66,223	$60,353	$67,629

District Office Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Lender Training Per Lender ($)	N/A	N/A	$535	$1,038	$394
Marketing and Outreach Per Activity ($)	N/A	N/A	$138	$195	$147

[a] SBA did not track this activity in FY 03 or 04.

[b] Ibid.

[c] These costs have been allocated across the financial, management, and procurement assistance programs.

The SBA district offices provide information on and promote SBA products to our lending partners and to the small business community. To continue improving the quality of the services provided by district offices, the SBA — in conjunction with the America East Lenders' Conference — trained 91 field staff in "Basic Commercial Credit" and "How to Train Lenders". In addition to providing information about SBA loans, district office employees conducted marketing, outreach, and training programs on contracting with the Federal Government and other business development opportunities to the Nation's socially and economically disadvantaged small businesses.

Goals Exceeded

Indicator: Lender Training (number of lenders)		
Target	**Result**	**Above Target by**
8,879	15,448	74%
Indicator: Marketing and Outreach (number of activities)		
Target	**Result**	**Above Target by**
308,779	460,869	49%
Reasons for performance result		
The performance goals were set at an approximate target level.		
Steps being taken to improve performance or targets		
SBA's goal team is reviewing the methodology for setting this goal.		
Impact of result		
Reaching additional lenders and small businesses is viewed as a positive result.		

GROUPS FACING SPECIAL COMPETITIVE OPPORTUNITY GAPS

The Small Business Act states that the broadening of small business ownership among groups that presently own and control little productive capital is essential to provide for the well-being of this Nation. Promoting their increased participation in the free enterprise system of the United States is within the SBA's mission. A significant part of SBA's mandate is to help bridge the gaps for groups facing special competitive opportunity gaps.

While the number of small businesses in the U.S. is growing about 8% per year, minority-owned small businesses are growing about 20% per year [22], according to the latest Census Bureau data. The Center for Women's Business Research reports that from 1997 to 2004, the number of firms that are majority-owned by women increased by 17%, nearly twice the increase of all privately held firms. [23]

However this increase doesn't give the complete picture. Minority-owned businesses are:

- Less likely to remain in business than non-minority-owned businesses[24]
- Younger and smaller in employment, sales, and assets
- More often organized as proprietorships.

Lack of access to capital is one of the main gaps faced by firms whose ownership is African American, American Indian or Alaska Native, Hispanic, Asian, female or who reside in rural or low income areas. These firms are:

- Less likely to use any financial service
- More likely to have unmet credit needs

Personal assets are often important in the decision to extend credit to small businesses. The U.S. Census reports that "More than 6-in-10 of the nation's businesses reported using money or assets of their own or from their families to start or acquire the business." [25] Low levels of assets limit entry into business ownership and increase business exit among disadvantaged groups. [26] In particular, home ownership is associated with approximately a 30% reduction in the predicted probability of loan denial. [27] While home ownership, particularly minority home ownership, has increased significantly in the past five years, gaps still exist.

A common theme that emerges is that SBA may help increase access to capital to disadvantaged businesses by enabling lenders to make loans that would not have been made otherwise. The SBA guarantees loans using business cash flow as a qualifying requirement, as opposed to available collateral, and thereby evens the playing field and has an impact beyond merely providing a source of capital. The SBA guarantee programs can often act as the bridge to overcome a lack of assets and prevent loan denials.

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22 This increase may be more valid for small new firms.

23 Lending Programs Offer More Small-Business Aid. Wall Street Journal online. http://www.startupjournal.com/financing/trends/20050201-chozick.html

24 Ying Lowrey (2005), "Dynamics of Minority-Owned Employer Establishments, 1997–2001: 1997–2001: An Analysis of Employer Data from the Survey of Minority-Owned Business Establishments," Research Study, U.S. Small Business Administration, Office of Advocacy (February). www.sba.gov/advo/research/chron.html.

25 U.S. Census Bureau - Survey of Business Owners - Characteristics of Businesses: 2002. http://www.census.gov/csd/sbo/cbsummaryoffindings.htm

26 The Small Business Economy, SBA's Office of Advocacy. http://www.sba.gov/advo/research/rbsb_econ2005.pdf

27 Cavalluzzo, Ken S. and Wolken, John D., "Small Business Loan Turndowns, Personal Wealth and Discrimination" (May 2003). FEDS Working Paper No. 2002-35. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=333580

African Americans

In 2002, there were 1.2 million African American-owned firms in the U.S., employing nearly 754,000 persons and generating nearly $89 billion in business revenues. These African American-owned firms accounted for 5.2% of all non-farm businesses in the U.S. [28] However, only 61% of those established in 1997 were still in business as of 2001, compared to 72.6% for the non-minority-owned businesses. [29]

Figure 3 shows that the percent of SBA's 7(a) loans going to African Americans has nearly doubled from their lowest point at 3.9% in FY 2002. This increase coincides with the expansion of the SBA*Express*, a 7(a) loans delivery system, which enabled lenders to use their own loan documents to ease service delivery and expand SBA impact in smaller loan amounts, an area crucial to nascent entrepreneurs.

Figure 3.

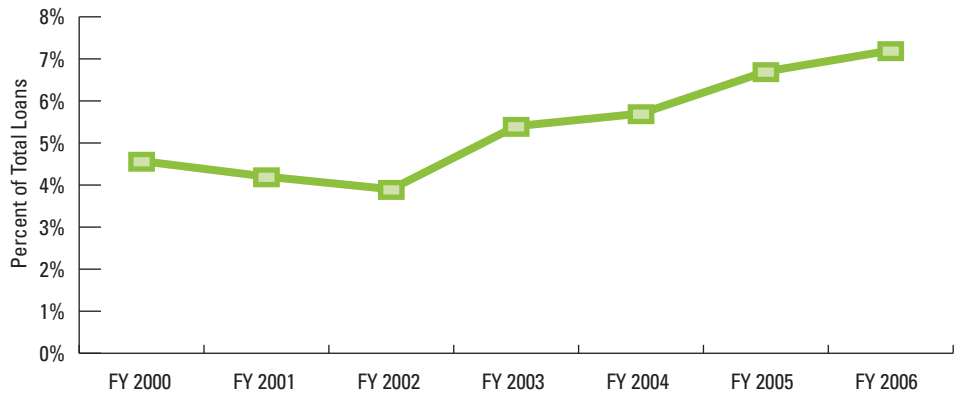
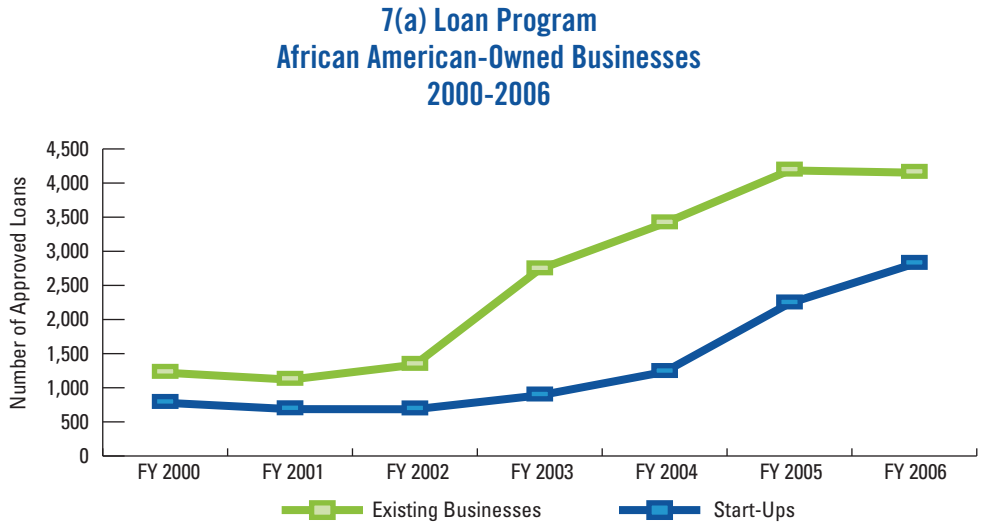


Figure 4 shows that 7(a) loans to African American-owned start-up businesses grew by 300% since FY 2002.

Figure 4.



28 U.S. Census Bureau - Survey of Business Owners - Black-Owned Firms: 2002. http://www.census.gov/csd/sbo/blacksummaryoffindings.htm

29 Ying Lowrey (2005), "Dynamics of Minority-Owned Employer Establishments, 1997–2001: 1997–2001: An Analysis of Employer Data from the Survey of Minority-Owned Business Establishments," Research Study, U.S. Small Business Administration, Office of Advocacy (February). www.sba.gov/advo/research/chron.html

Only 0.5% of African American businesses used a government guarantee loan to start a business, this number is similar to 0.7% for whites.[30] These statistics emphasize the need for and importance of SBA marketing and outreach to disseminate information about alternative sources of capital.

SUCCESS STORY

Business Supplies the Vision, SBA Supplies the Opportunity

For years, Bernadette Morris had a vision to establish a public relations, marketing and advertising firm that would be a leader in its field. This vision, coupled with determination, diligence, and a positive attitude, helped realize her dream in 1993 when she established Sonshine Communications.

It was in 1997 when Bernadette set her sight on the federal marketplace and turned to the SBA's 8(a) business development program for assistance. Sonshine's marketing team researched the federal procurement arena to find out who buys PR related services and targeted the U.S. Army Corps of Engineers, Jacksonville District. With diligence, hard work and a highly creative proposal, Sonshine won the company's first federal contract worth $ 30,000 to provide public relations and community outreach services. With each new federal contract, Sonshine was able to hire between three to five new employees. Operating revenues have increased over 400% since joining the 8(a) program. Sonshine's largest contract to date is with the U.S. Army Corps of Engineers and requires the development of an educational outreach campaign to inform the public about the Corp's efforts to increase awareness of Everglades' restoration.

Since its early and humble beginnings, Sonshine Communications has grown to 27 employees and a client list of over 40 firms. Under Bernadette's leadership and guidance, Sonshine has now blossomed into a corporate mainstay, with annual revenues in excess of $3 million. Located in Miami, Florida Sonshine Communications is the largest Black owned public relations, marketing and advertising firm in Florida.

30 U.S. Census Bureau, 2002 Survey of Business Owners Characteristics of Businesses – Released September 27, 2006. http://www.census.gov/csd/sbo/chartable_h.xls

Hispanics

Hispanics owned 1.6 million non-farm U.S. businesses in 2002, employing 1.5 million persons and generating $222.0 billion in business revenues. These Hispanic-owned firms accounted for 6.8 % of all non-farm businesses in the United States, 1.4% of their employment and 1.0% of their receipts.[31] Estimates from the Census Bureau indicate that more than 40% of African-American and Latino employer firms hire at least 90% minority employees.[32]

In FY 2006, as Figure 5 shows, the percentage of SBA's 7(a) loans to Hispanics was 10.6% of the total for that year. This represents a 40% increase in their share of the 7(a) portfolio since FY 2002.

Figure 5.

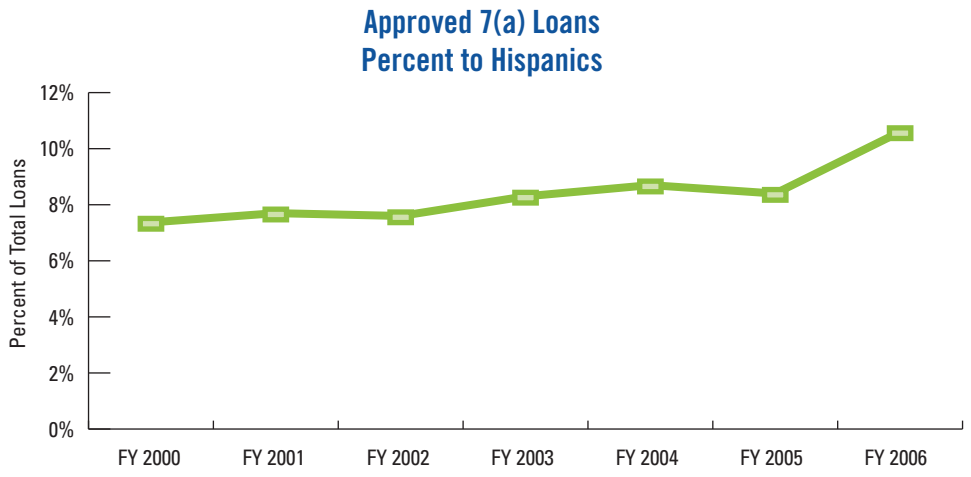
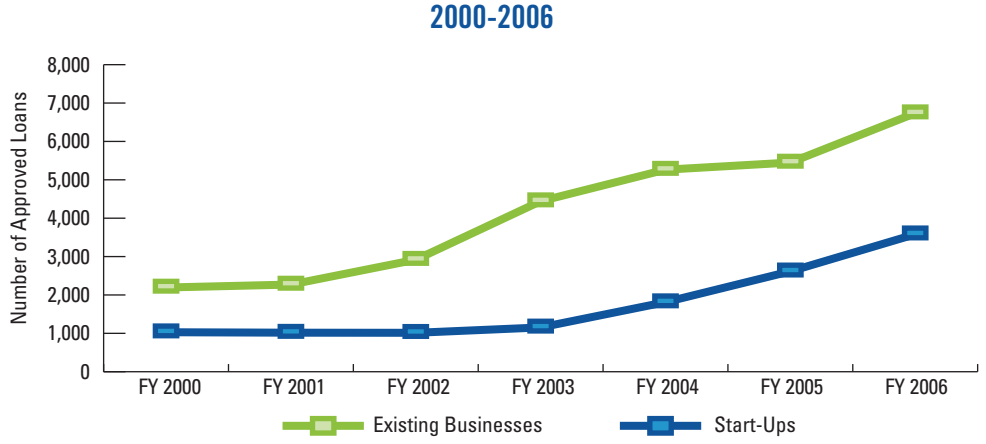


Figure 6.



31 U.S. Census Bureau, Survey of Business Owners - Hispanic-Owned Firms: 2002. http://www.census.gov/csd/sbo/hispanicsummaryoffindings.htm

32 U.S. Census Bureau, 1997. Characteristics of Business Owners. http://www.census.gov/csd/cbo/

In comparison to the general population, according to the Census Bureau, the Hispanic-owned small business share grew from 5.8% in 1997 to 6.9% in 2002 [33]. However, more than half of the Hispanics have reported availability of credit as a significant problem [34]. By contrast, the number of SBA's 7(a) loans to Hispanics has increased by 160% since FY 2002, as shown by Figure 6. Most of this increase came from the increase in the amount of capital made available by 7(a) loans to new Hispanic-owned small businesses, with an increase of 250% since FY 2002.

These figures also illustrate the continued importance of SBA's targeted marketing and outreach to disseminate information about alternative and affordable sources of capital.

SUCCESS STORY

With SBA, Business Can Say "Bull's Eye!"

Do you have any idea how exciting it is to visit a 35,000 square foot facility and be surrounded by missile launchers, tanks, Black Hawk helicopters and other life-size military vehicles? This is the experience of a visit to the offices and facilities of DEI Services Corporation. DEI is an industry-recognized provider of simulation and training devices for the military.

At DEI, although it appears you are looking at a missile launcher, it is actually a shell of the device with a complete computer overhaul within the shell, allowing military personnel to feel as if they are operating the actual device.

After earning an Electrical Engineering Degree, Jose Diaz, President of DEI, worked at different local simulation companies in the Orlando area. In 1996, he started his own consulting company. Today, DEI Services Corporation has a staff of 75 full-time employees. The small business that was financed by personal loans and operated out of a 10x10 office has grown into a high profile company generating $12 to $15 million a year.

And the SBA was there to help! DEI Services received 8(a) certification as part of the SBA's 8(a) Business Development program in 1998. Now, the company is working on 14 different government contracts, a combination of 8(a) set aside contracts and contracts that were sought out directly by DEI. Jose Diaz is right on track with his original business plan. He maintains all of the finances of the business and is very active in all the day-to-day operations.

A turning point for DEI Services occurred in 2003, when it competed for the Navy's NAVAIR, Training Systems Division, 8-year IDIQ contract. DEI was one of 18 companies worldwide and one of four small businesses chosen to participate in this contract.

33 U.S. Census Bureau 2002 SURVEY OF BUSINESS OWNERS (SBO), http://www.census.gov/csd/sbo/hispanicsummaryoffindings.htm.

34 US Chamber of Commerce. *Access to Capital. What funding Sources work for you.* 2005. http://www.uschamber.com/publications/reports/access_to_capital.htm

Native Americans

American Indians and Alaska Natives owned nearly 201,400 non-farm U.S. businesses in 2002, employed about 191,300 persons, and generated $26.9 billion in business revenues.[35]

Financing options remain a significant barrier to prospective business entry/expansion for Native Americans entrepreneurs mainly due to geographic isolation. Most tribes are located in remote regions of the country, far removed from major metropolitan areas and the potential customers for products and/or services. The distinctiveness of each Tribe means that no two Tribes operate alike and none possess systems which could be compared to standard business/judicial/government systems anywhere else in the country.

Figure 7.

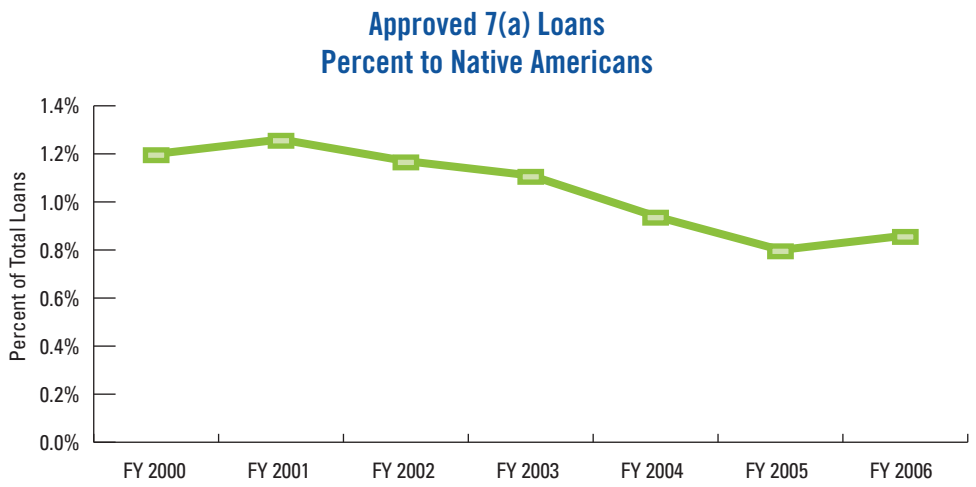
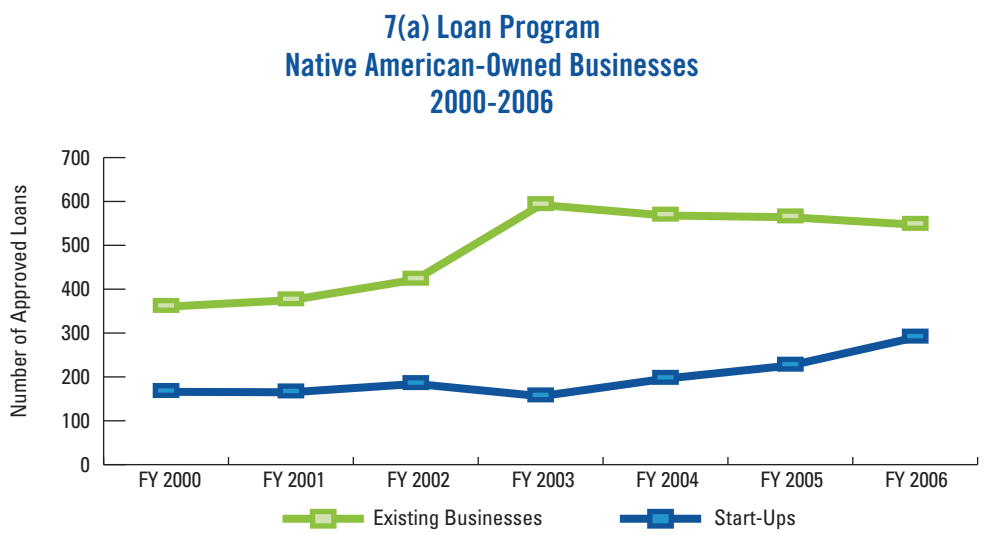


Figure 8.



35 U.S. Census - Survey of Business Owners - American Indian- and Alaska Native-Owned Firms: 2002. http://www.census.gov/csd/sbo/aiansummaryoffindings.htm

In absolute numbers 7(a) loans to Native Americans have grown from around 500 in FY 2000 to just over 800 this fiscal year. However, as a share of the 7(a) portfolio, this represents less than 1% in FY 2006. In FY 2000 this figure stood at 1.2%. In recognition of the broad strategic challenges facing Tribal leaders and decision makers, SBA is targeting marketing and outreach and training to Native Americans to enhance their business opportunities.

While the number of 7(a) loans to start-up Native American firms continues its healthy upward trend, the number of loans to existing businesses has fallen from their 2003 peak. In total, loans to existing Native Americans went from just over 350 in FY 2000 to a high of around 600 in FY 2003 and 540 for the current fiscal year.

Small business ownership comes with unique challenges for American Indians, Alaska Natives, Native Hawaiians, and the indigenous people of Guam and American Samoa. The Agency has embarked upon an initiative to create a web-based "Self Assessment Tool". The SBA convened an "Initiative Oversight Committee" made up of economists, lawyers, entrepreneurs, Tribal leaders, corporate executives and leaders of not-for-profit organizations engaged in Indian Country. This committee points Tribes into areas of likely success and positive economic impact for all Native Americans no matter their location.

SUCCESS STORY

Dial 504 for Success!

For most of its 20-year existence, Data Management Resources in Hagatna, Guam moved from building to building, paying rent every month to some landlord. But that's all changing, thanks to the helping hand of the SBA and its 504 loan program.

The 504 program is helping Data Management finally buy its own building. Rich C. Taitano, the company's chief technical officer and son of its founder, said he'll be paying significantly less in mortgage payments every month than he currently pays in rent.

What's more, with the SBA program in place, Data Management only had to put about 10% down on the property, as opposed to the 25% required by most banks. "The SBA 504 Loan Program has actually been available for many years," notes SBA Guam Branch Manager Kenneth Lujan. "However, as of right now, only about a dozen local businesses are taking advantage of it." Data Management is one of the lucky ones!

Asians

The Census Bureau reports that between 1997 and 2002 the number of Asian-owned firms grew at twice the national average for all businesses. The 1.1 million businesses generated more than $326 billion in revenues. About a third of these firms had employees numbering 2.2 million and generated revenues of nearly $291 billion. Tellingly, almost 47% of Asian-owned firms are located in just two states: California and New York, with Texas coming in next at about 7%.[36]

Though Asians seem to enjoy remarkable opportunities and success in business ownership, two issues are at times overlooked. For one, Asian-owned firms are more likely than other minorities to have unmet credit needs.[37] Second, the aggregate data masks illuminating differences among Asian groups as Figure 9 below suggests.

Figure 9. **Asian Ownership of Firms by Detailed Group: 2002[38]**

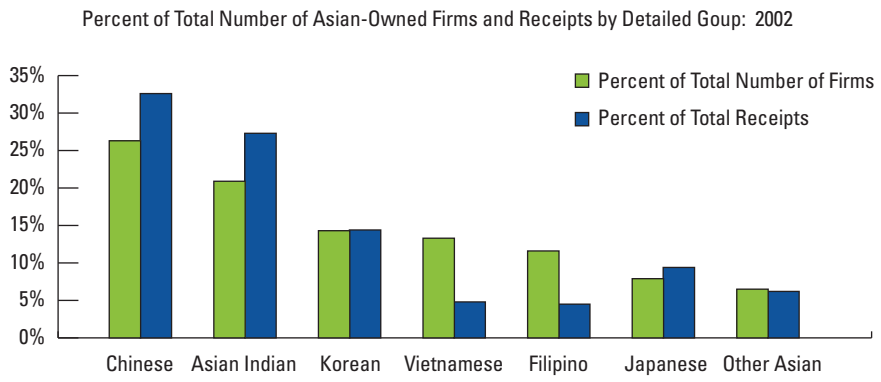
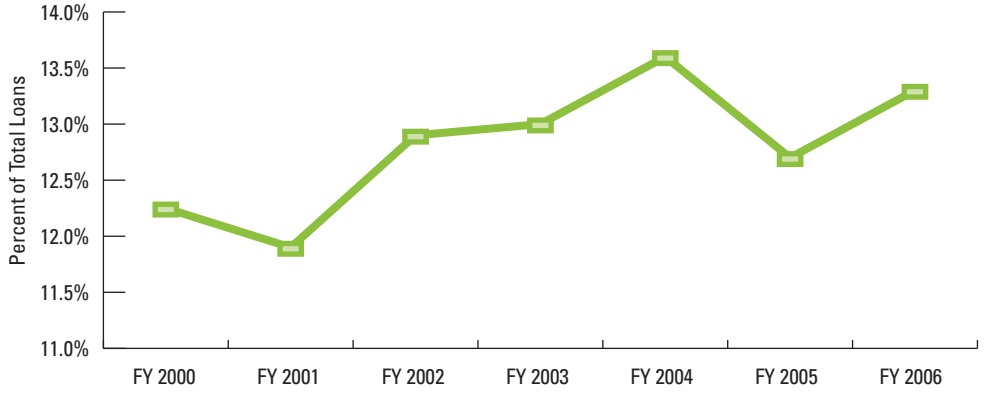


Figure 10. **Approved 7(a) Loans Percent to Asian**



36 U.S. Census - Revenues for Asian-Owned Firms Surpass $326 Billion, Number of Businesses Up 24 Percent. http://www.census.gov/Press-Release/www/releases/archives/business_ownership/006814.html

37 Federal Reserve - Financial Services Used by Small Businesses: Evidence from the 2003 Survey of Small Business Finances. http://www.federalreserve.gov/pubs/bulletin/2006/smallbusiness/smallbusiness.pdf

38 http://www.census.gov/Press-Release/www/releases/archives/business_ownership/006814.html

SBA's Office of Advocacy reports that there is significant potential for ethnic groups such as Filipinos, Vietnamese, other Asians, Hawaiians, and other Pacific Islanders to improve their business earnings.

In FY 2006, Asian-Americans received 13.3% of 7(a) loans compared to 12.7% in FY 2005 and 13.6%in FY 2004.

Figure 11.

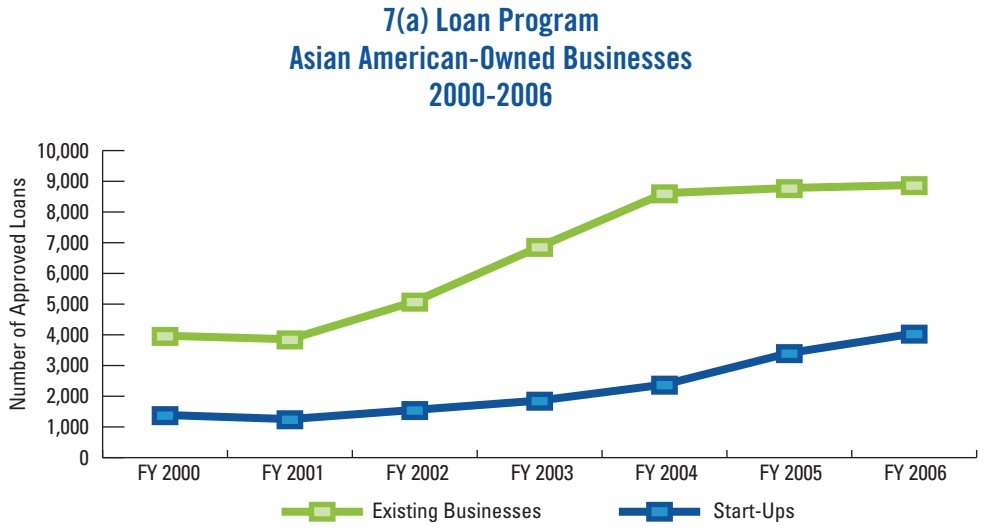


Figure 11 shows that 7(a) loans to Asian American-owned start-up businesses continued to grow during FY 2006. Meanwhile, SBA 7(a) loans to existing Asian American firms have also grown, but at a slower rate. These statistics emphasize the importance for SBA marketing and outreach to all segments of the Asian population to further disseminate information to those segments that might not be accessing the alternate sources of capital that SBA makes available.

SUCCESS STORY

The SBA Gives Business the Tools to be the Best!

Jay Reddy has lofty goals for his company. He not only wants it to be the most successful small business in West Virginia, he wants to be recognized as one of the best in the entire country! Jay is owner and CEO of ProLogic Inc., a small 8(a) business in Fairmont, West Virginia that provides innovative information technology solutions for local, state and federal agencies, and for commercial clients.

ProLogic started as a one-man operation in the West Virginia High Technology Consortiums incubator in 1995. Today, the company has over 75 employees with projects in 10 states. Most of its business is for clients such as NASA, the Air Force and the Army. In fact, 70% of its contracting work is as a prime contractor, with over 90% to government clients. During a three-week period this year, ProLogic signed nearly $13 million in contracts. We doubled in size last year, and by 500% in the past five years," says Jay.

Jay credits his company's growth to the 8(a) program. He explains, "The assistance we received from the SBA has helped us understand the federal contracting process and enables us to bid on and win government contracts. The help and support we've received from West Virginia SBA employees has been outstanding." He continues, "8(a) certification by itself doesn't get you contracts. You need to use it as an enabler. You have to build up your company based on core competencies. [But] the 8(a) program gives you the tools you need to develop and grow; that's what the program is all about." Reddy is currently looking into other areas of the 8(a) program, such as the Mentor-Protégé program. He feels the government contracting knowledge he has gained can help other small companies.

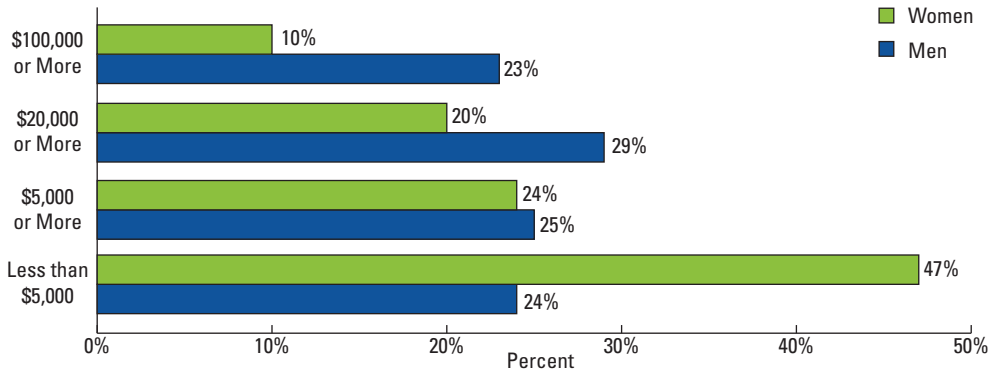
Women

Women currently own 10.4 million — about 40% — of all small-businesses in the U.S., according to the Center for Women's Business Research. As of 2006, these firms accounted for $1.1 trillion in annual sales and 7.2 million employees. The largest share of women-owned firms is in the service sector. Sixty-nine percent of these firms are in services and 14.4% are in retail trade.[39]

While access to capital has improved considerably for women, there still remains a gap between women and men in access to funding to either start or expand their businesses as figure 12 below shows. [40]

Figure 12.

Business Start-Up Funding Level by Gender



A 2006 SBA research report[41] showed that almost 85% of women-owned firms are sole proprietorships, compared to about 73% for all businesses. An added challenge is the growth faced by these women-owned firms, as almost 80% have receipts less than $50,000. Only 3% of all women-owned small companies generate more than $1 million annually, compared with 6% of all men-owned enterprises. These smaller women-owned businesses continue to have lower levels of credit and are less likely to seek financing than male-owned businesses. Those that do seek credit often turn to personal lines of credit rather than commercial loans like their male counterparts.

As the chart below illustrates, while women turn to personal lines of credit, their male counterparts are more likely to pursue commercial credit[42]. The SBA continues to fill the access to capital gap with a variety of loan programs that meet the diverse needs of women entrepreneurs.

	Intial Funding		Ongoing Funding	
	Bank Loan	Credit Card	Bank Loan	Credit Card
Men	23%	16%	43%	30%
Women	13%	15%	21%	29%

39 Center for Women's Business Research. http://www.cfwbr.org/facts/index.php

40 *Access to Capital: What funding sources work for you?* US Chamber of Commerce. May 2005. http://www.uschamber.com/publications/reports/access_to_capital.htm

41 SBA, Office of Advocacy, Women in Business A Demographic Review of Women's Business Ownership. http://www.sba.gov/advo/research/rs280.pdf

42 US Chamber of Commerce. *Access to Capital. What funding Sources work for you.* 2005. http://www.uschamber.com/publications/reports/access_to_capital.htm

Figure 13 below shows that in FY 2006, the percentage of approved 7(a) loans to women has tended to hover between 20% and 25%. The FY 2006 figure of 22.5% represents a dip from the high reached in FY 2005 of just over 25%. Furthermore, the components of SBA loans to women show a decline in those using the 7(a) program by 1.7% from FY 2005 while the 504 Program shifted up a little more than 1%. The 504 Program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. The slight shift into this program might well account for the decrease in the number of women in the 7(a) loan program.

Figure 13.

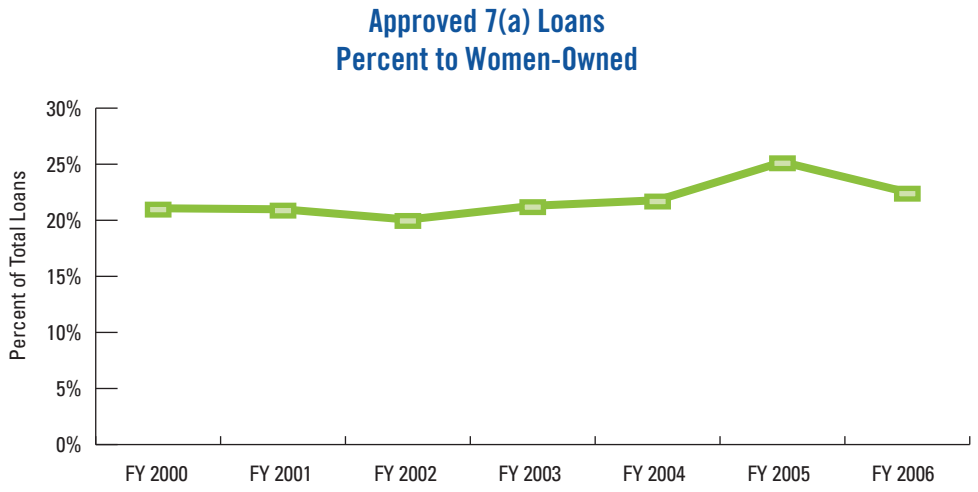
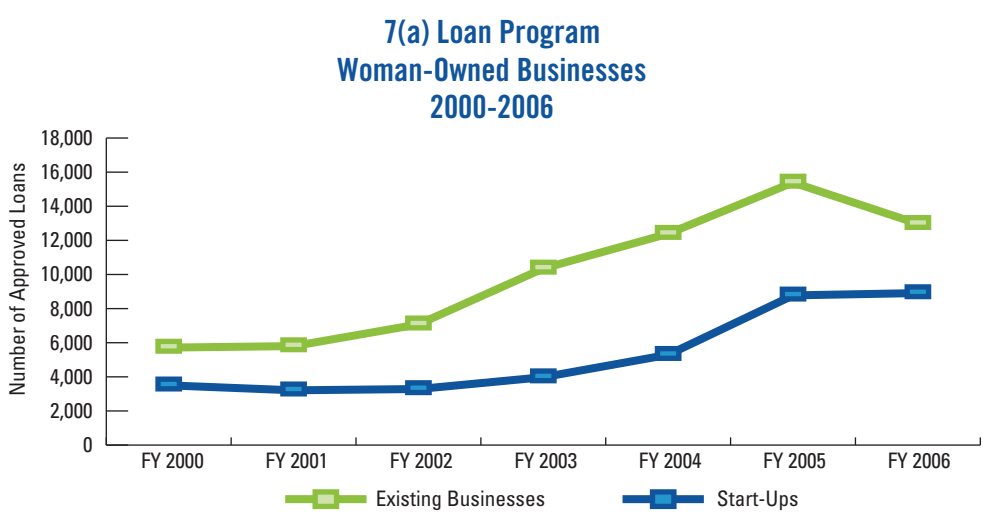


Figure 14 shows the trend of 7(a) loans to both women-owned start-up and existing businesses.

Figure 14.



In the general population, the wholesale and retail trades accounted for 38.2% of women-owned business revenue. SBA's 7(a) loan portfolio, on the other hand, shows 25% of women-owned businesses in these trades. The difference is illustrative of the diversity in industries SBA clients occupy and a move towards the more lucrative sectors.

Figure 15.

2006 Industry Distribution of 51% or More Women-Owned Firms

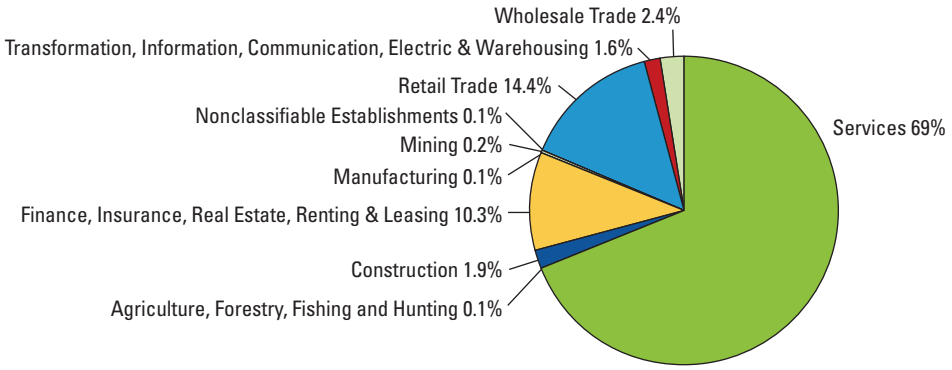


Figure 16.

FY 2006 SBA Assisted Women-Owned Firms by Industry

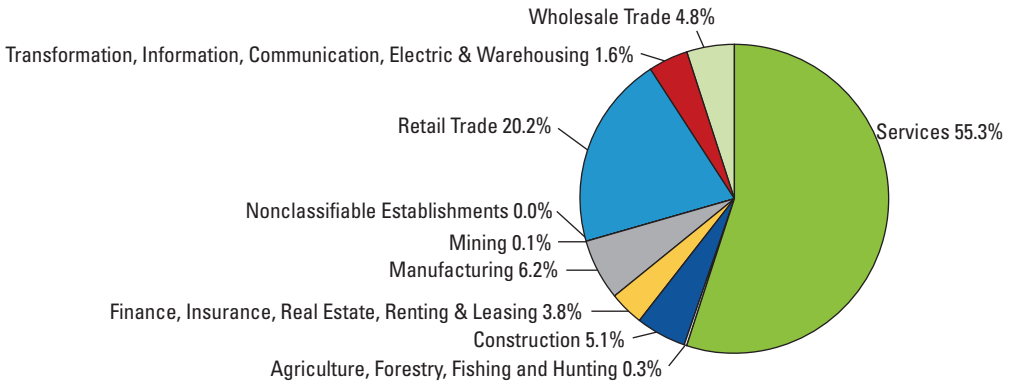
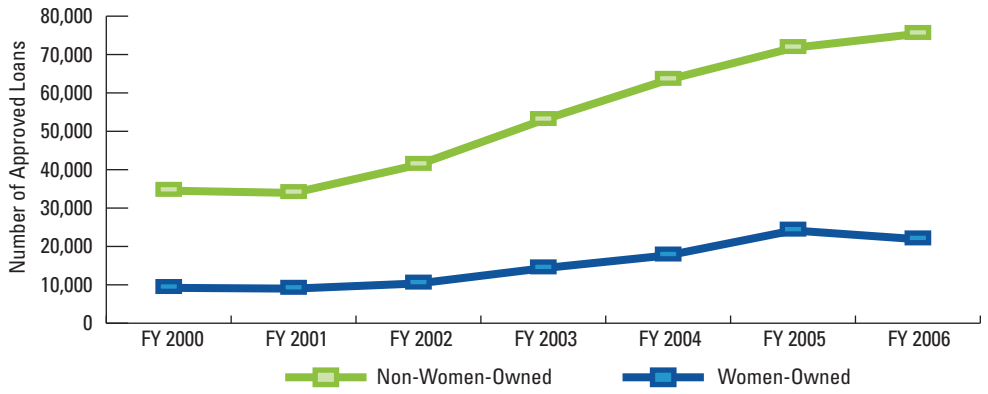


Figure 17 below shows the comparison of how non-women-owned businesses are faring in the 7(a) loan program compared to firms controlled by women. Loans to women have been increasing at a lower rate than those to non-women-owned firms.

Figure 17.

7(a) Loan Program
Women-Owned vs. Non-Women-Owned Businesses
2000-2006



SUCCESS STORY

SBA Makes the Business Purr with Profits

Before moving to Portland, Oregon, Dr. Elizabeth Colleran had been a feline specialist for eight years. She recalls, "When I began my search to relocate, I was looking for two things — first, a place with good market demographics; and second, a city that reminded me of my earlier life in Boston, a city of trees and water." She found both in Portland.

Then Elizabeth went to the SBA and applied for a 7(a) loan. "Through the SBA we met bankers and other supporters of business growth in Oregon… My husband is a builder with a designer's eye. He could see a state-of-the-art feline hospital where all I saw was rubble in an empty old antique warehouse… With the financial team lined up behind us, we bought the old thing and sure enough, he was right!" The Cat Hospital of Portland opened in March of 2004.

However, let us take a moment to note that this is no ordinary veterinary establishment. But that's SBA's favorite part! Not only is the hospital specifically for the kitty variety, it recognizes the special needs of cats. The hospital realizes that a trip to the vet can be stressful for a cat, and demands a formal code of conduct from all employees, including the lowering of voices, no strange odors and gentle handling. Elizabeth notes, "The cat is a unique species and demands a different sort of medicine." With regard to conduct, she continues, "No position in the office is exempt — from receptionist to doctor."

With this philosophy, the SBA's help, and the hospital's highly skilled staff, the Cat Hospital of Portland is sure to remain cat's best friend and will continue on its already impressive road of success!

Veteran-Owned Businesses

Small business ownership comes with many challenges as veterans, service-disabled veterans and reserve component members of the United States Armed Forces must balance their civilian and self-employment careers with their commitment to defend the Nation. Reserve and National Guard Service has transformed into a commitment to serve in an operational force for the global war on terror. Every veteran has had a portion of their life procured and deployed by the government for common defense of the Nation. This deployment can have a direct effect on a veteran's ability to accrue earnings, education, savings, home equity, credit, lender experience, private experience, and other personal assets critical to successfully starting a small business. Approximately 10% of veterans endure life-long effects of service incurred disabilities, and reservists are being called from their small businesses at historic rates with sometimes dramatic negative effect on the financial health of their small business, especially the market they previously succeeded in.

A major obstacle veterans and veteran entrepreneurs, in particular, have to overcome after military discharge is establishing or re-establishing good credit.

Figure 18.

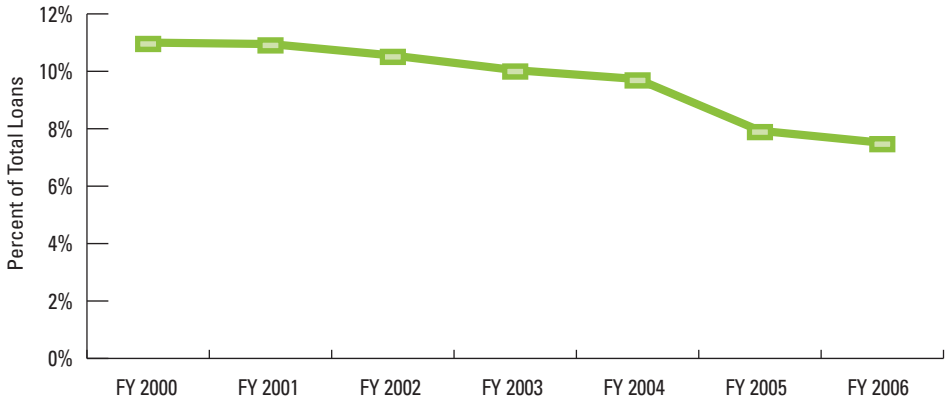
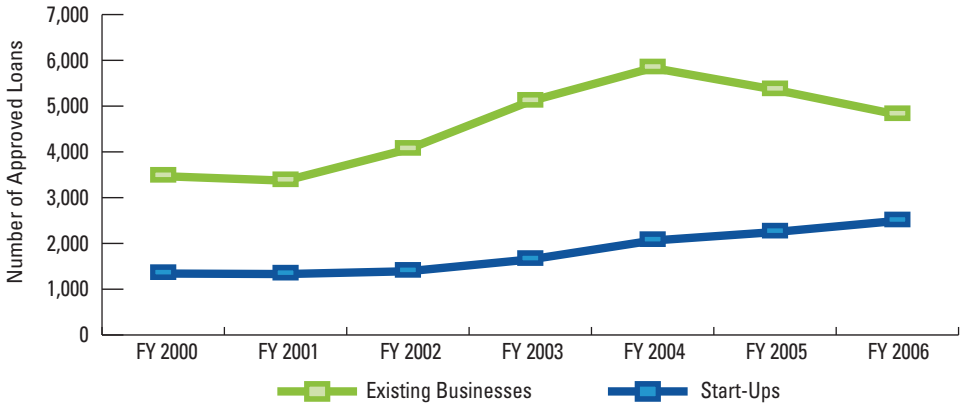


Figure 19.



Though the absolute numbers of loans to veterans have grown from around 4,800 in FY 2000 to approximately 7,300 in FY 2006, the percentage of approved 7(a) loans accruing to veterans continued to decline. While veterans made up 11% of the 7(a) loan portfolio in FY 2000, the number by the end of FY 2006 stood at around 7.5%. Meanwhile, SBA research suggests the most cited hurdles for prospective and current veteran entrepreneurs were access to financing and information about small business programs that might be beneficial to them. [43]

As Figure 19 illustrates, 7(a) loans to veterans reveal opposing trends between start-ups and existing businesses. Loans to start-ups continue their steady growth from around 1,300 loans in 2000 to almost 2,500 loans in 2006. Loans to existing veteran-owned firms, however, peaked at about 5,800 in FY 2004.

America owes a tremendous obligation and responsibility to its veterans. The SBA responds to the special needs of veterans both internally and externally to the Agency through its Office of Veterans Business Development. This office manages a business outreach program focused on addressing the needs of veterans.

SUCCESS STORY

Former Marine Armed with SBA Wins the Battle

After five years in the Marine Corps, Chris Price was ready to start his own business. He wanted to do something connected to the housing industry. Chris had worked in the steel erection business before he joined the Marines, and he liked the idea of going into gutter installation.

In late 2004, Chris started talking to banks in the Douglasville, Georgia area about getting a loan to start his company. Time soon became a factor when he learned that a friend, who installed residential gutters, was ready to leave the business and sell him his used equipment.

"I told the banks I didn't have a lot of money to put down on a small business loan," recalls Chris. "That's when one of them referred me to Appalachian Community Enterprises (ACE)." ACE is an SBA microloan lender that makes loans of up to $35,000 to small businesses for working capital or the purchase of equipment and supplies. Chris also needed help preparing a business plan, so he contacted the SBA's Small Business Development Center in nearby Carrollton.

With the loan, Price was able to buy a 1994 one-ton truck equipped with a large storage cab. The loan also funded two used gutter-forming machines that can roll out either five or six-inch wide aluminum gutters. "It can take from four to six hours to put gutters on an average size house," explained Chris. "And I use some part-time helpers depending on the type of job I'm involved with."

The referral to ACE and the SBA paid big dividends for this young entrepreneur. "It would have been impossible for me to start my business without the Microloan," said Chris.

Chris Price with Terri Denison, SBA District Director for Georgia.

43 Entrepreneurship and Business Ownership In the Veteran Population. SBA # 242. November 2004. http://www.sba.gov/advo/research/rs242tot.pdf

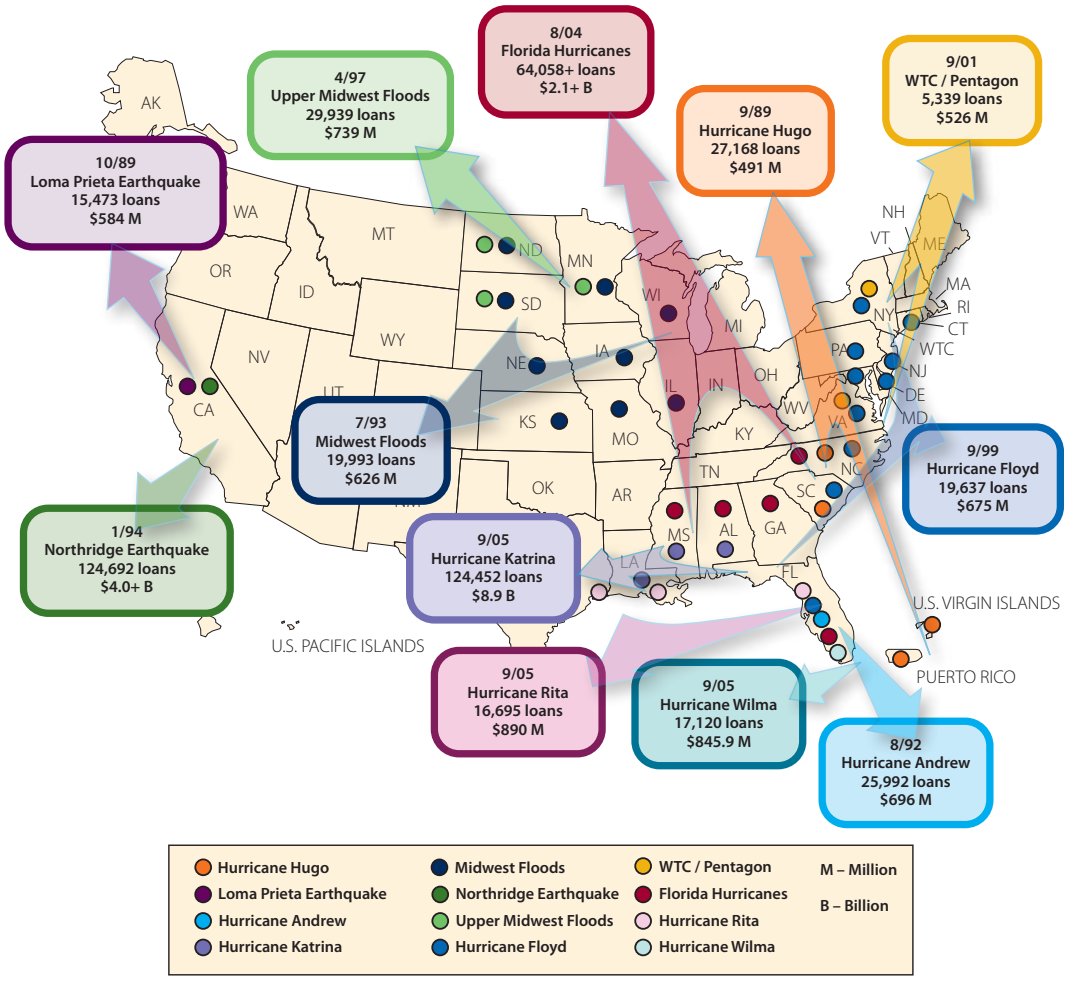
STRATEGIC GOAL 3

Restore homes and businesses affected by disaster

By their nature, disasters inflict widespread destruction and distress—on families, businesses and communities. Disasters are unpredictable, but they are not unexpected. They are, unfortunately, all too frequent occurrences. To assist victims of physical disasters, the SBA operates a direct loan program and supports the servicing and collection of these loans after they have been made. The focus of the Agency is expressed by one long-term objective, similarly worded to the strategic goal.

LTO 3.1 – Restore homes and businesses affected by disaster

The disaster loan program is the only form of SBA assistance that is not limited to small businesses. Disaster loans help homeowners, renters, businesses of all sizes and nonprofit organizations to fund rebuilding and recovery efforts. Small businesses, in particular, are helped by a stronger customer base and revitalized communities. Communities that have been devastated by disasters lack the customer base necessary for small businesses to become functional again. By providing integrated assistance, the SBA increases the effectiveness of this federal assistance. The map below shows the SBA's disaster lending from 1989 until present by major disaster.



The SBA offers two types of disaster loans to respond to the long-term recovery needs of disaster victims: 1) physical disaster loans, which provide funds to repair or replace disaster-damaged uninsured or underinsured real and personal property belonging to homeowners, renters, businesses of all sizes, and nonprofit organizations; and 2) economic injury disaster loans, which provide necessary working capital to small businesses adversely impacted by the declared disaster until normal operations can be resumed.

In a Presidential disaster declaration, individuals who are homeowners or renters register first with the Federal Emergency Management Agency (FEMA). FEMA will refer qualified individuals to the SBA. Businesses may apply directly to the SBA for disaster assistance. SBA disaster loans have lower interest rates and longer terms than conventional lending offers. The disaster loans are a critical source of economic stimulation in disaster-ravaged communities and help generate employment and stabilize tax bases by protecting jobs.

The 2005 Gulf Coast hurricanes created a big challenge for the SBA — to deliver assistance at the customer service level that is the Agency's benchmark. The magnitude of the disaster resulted in a backlog of applications to be processed and delayed assistance to the disaster victims. The following section reviews the main challenges and the actions taken by the Agency to improve its performance. It also describes the changes that the SBA has or will implement to improve its surge capacity.

Hurricanes Katrina and Rita devastated far more residential property than had any other recent hurricane, completely destroying or making uninhabitable an estimated 300,000 homes. Photo courtesy of FEMA/Mark Wolfe.

FY 2006 Program Performance and Costs to Achieve Results

In the summer and fall of 2005, Hurricanes Katrina, Rita and Wilma destroyed portions of Alabama, Florida, Louisiana, Mississippi and Texas. These storms wreaked devastation on homes and businesses and collectively represent the worst natural disaster in American history. As measured by barometric pressure, Katrina was more intense than Hurricane Andrew. Barometric pressure is the most accurate representation of a storm's power. The lower the barometric pressure, the more intense the storm.

Figure 20.
Most intense U.S. hurricanes at landfall

Hurricane	Year	Barometric pressure (inches)	Wind speed (mph)
"Labor Day" (Fla. Keys)	1935	26.35	160
Camille	1969	26.84	190
Katrina	2005	27.11	140
Andrew	1992	27.23	165

As Figure 21 illustrates, the magnitude of the Gulf Coast hurricanes caused over 420,000 applicants to seek SBA's assistance. The SBA responded by approving $10.6 billion in loans to those affected. By comparison, 181,751 applications were processed in FY 2005, and $1.8 billion in loans were approved for the 2004 Florida hurricanes. Put into context, over 20% of all disaster loan dollars approved in the 53-year history of the SBA occurred in FY 2006. Figure 21 illustrates how the Gulf Coast hurricanes represent the largest collection of disasters the Agency has ever faced.

Figure 21.

SBA Assistance to Four Largest Disasters

Event	Applicants	Dollar Amount Approved
Gulf Coast Hurricanes (2005)	422,253	$10.6 Billion
Northridge, California Earthquake (1994)	250,402	$4.0 Billion
Florida Hurricanes (2004)	181,751	$1.8 Billion
Hurricane Andrew (1992)	45,727	$7 Million

The Agency also received loan applications from other disasters that occurred during FY 2006, resulting in a combined total of over 440,000 applicants and $11.2 billion in loans approved for the year.

The method SBA uses to forecast activity expected from declared disasters did not account for a disaster of the magnitude of Katrina. The prior benchmark for natural disasters was the Northridge, California, earthquake of 1994 which accounted for $4.0 billion in loans. The 2005 hurricanes resulted in $10.6 billion in approved loans, nearly three times higher. To better forecast the impact of a disaster, the Agency has developed a new model that enhances its capability to immediately forecast loan volume. This new model provides a more robust methodology for predicting loan volume based on assets at risk and disaster characteristics. It will be tested for accuracy during FY 2007 and will enable the SBA to better predict its resource needs.

The SBA also developed a model to forecast the staffing requirements, related logistics, and administrative costs based on loan application volume. These two new tools will put SBA in a much better position to respond to future catastrophic natural disasters.

The SBA measures the success of its disaster assistance according to the outputs at the program level as shown in the performance statement Table 30 and according to the agency-level outcomes in Table 3 on page 35.

Table 30.

Performance Statement Program Level Assistance Strategic Goal 3. Restore Homes and Businesses Affected by Disaster.								
LTO	Disaster Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal[a]	FY 2006 Actual	FY 2006 % Goal Variance
3.1	Applications Processed (Number)	Output	102,278	104,518	153,072	N/A	441,631	N/A
3.1	Original Loans Approved (Number)	Output	25,856	28,510	62,075	N/A	169,992	N/A
3.1	Loans Funded (Number)	Output	21,170	22,264	41,651	N/A	137,803	N/A
3.1	Value of Loans Approved ($ Millions)	Output	$885	$884	$2,279	N/A	$11,627	N/A
3.1	Percentage of Disasters Having Field Presence Within 3 Days (%)	Output	100%	100%	100%	N/A	100%	N/A
3.1	Percentage of Loans With Initial Disbursements Within 5 Days of Loan Closing (%)	Output	99%	99%	97%	95%	55%	-42% R
3.1	Time To Process 85% of Home Applications (Days)	Output	N/A	11	25	14	74	-429% R
3.1	Time To Process 85% of Business Physical Applications (Days)	Output	N/A	14	35	18	66	-267% R
3.1	Time to Process 85% of EIDL Applications (Days)	Output	N/A	13	24	18	29	-61% R
3.1	Percent of ODA Staff Trained Related to Hazard Mitigation. (%)	Output	N/A	100%	100%	100%	100%	0% G
3.1	Loans Containing Disaster Prevention Measures	Output	N/A	230	545	295	337	14% B

Disaster Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$270,378	$208,401	$424,748	$1,163,367	$1,793,166
Disaster Loan Approving ($000)	$236,640	$182,917	$393,957	$1,118,201	$1,766,355
Disaster Loan Servicing ($000)	$33,737	$25,484	$30,792	$45,167	$26,811

Disaster Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Application Processed ($)	$2,644	$1,994	$2,775	N/A	$4,000
Per Loan Funded ($)	$11,178	$8,216	$9,459	N/A	$12,818

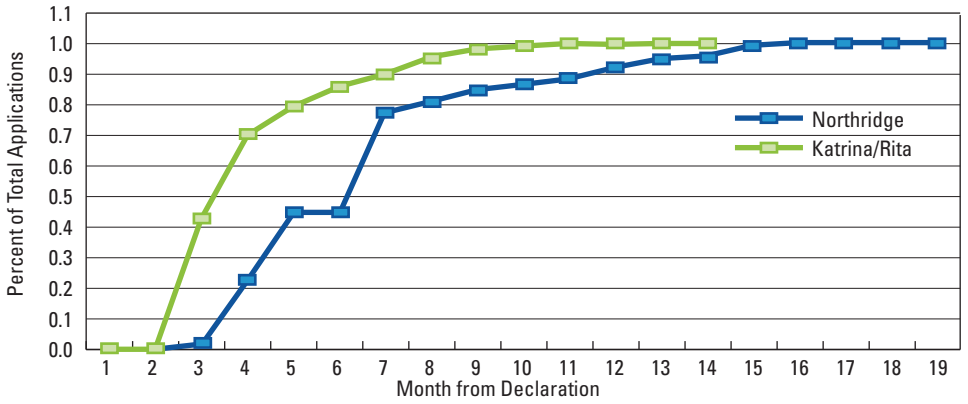
[a] Since disasters cannot be anticipated, goals cannot be set for some of these indicators.

The Agency fell short of its targets for the level of assistance to businesses and homes that sustained physical or economic damage during FY 2006. This shortfall can be attributed to several factors, the greatest of which is the widespread and unprecedented damage that was inflicted by the hurricanes of 2005. Katrina's damage was not only extraordinarily extensive, its effects became evident almost instantaneously, mostly due to the breaking of the Louisiana levees. These conditions

resulted in the unprecedented rate of loan applications. The previous benchmark – the Northridge earthquake — produced over 250,000 applications, but those applications were spread over a longer period. Figure 22 shows the rate at which SBA received applications. Close to 50% of the applications were received in three months for Katrina, while it took six months for Northridge. One hundred percent of the Katrina applications had been received 10 months after the declaration. Comparatively, it took Northridge applications 15 months to reach the same point.

Figure 22.

Application Rate Comparison
Northridge Earthquake vs. Hurricanes Katrina & Rita

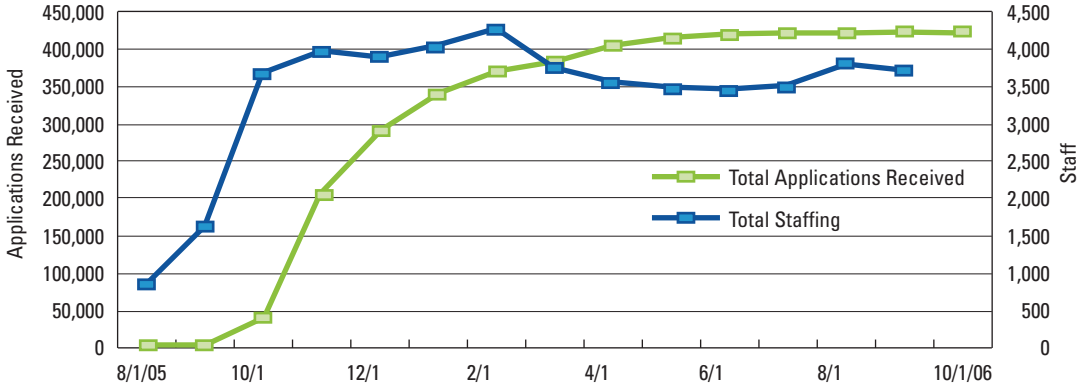


The SBA maintained its strong record of being on site within three days in 100% of the cases. The Agency coordinated with FEMA and the states on the opening of disaster recovery centers. However, the SBA did not have sufficient personnel, space and capacity in place to process applications within its previous timeframe, 85% of received applications processed within 14 days.

The SBA maintains a cadre of disaster loan processors that gives it a basic capability for responding to disasters. Once a disaster occurs, it counts on its surge capability to be able to match the intensity of the disaster's damage.

Figure 23.

2005 Hurricanes Katrina, Rita, and Wilma
Loan Applications and Staffing Timeline



On August 1, 2005, the SBA Disaster program had approximately 880 employees on board. One month after Hurricane Katrina's landfall, the Agency had increased the Office of Disaster Assistance staffing by more than 160% to 1,522 personnel. In another month, this number had increased again, to 3,650 active personnel. And by December 1, the number had increased to almost 4000 active disaster personnel. The Agency had already received close to 40,000 applications more than in its previously largest disaster, the Northridge earthquake of 1994. The SBA had to compete with FEMA and insurance companies for qualified personnel, which limited the number that could be hired.

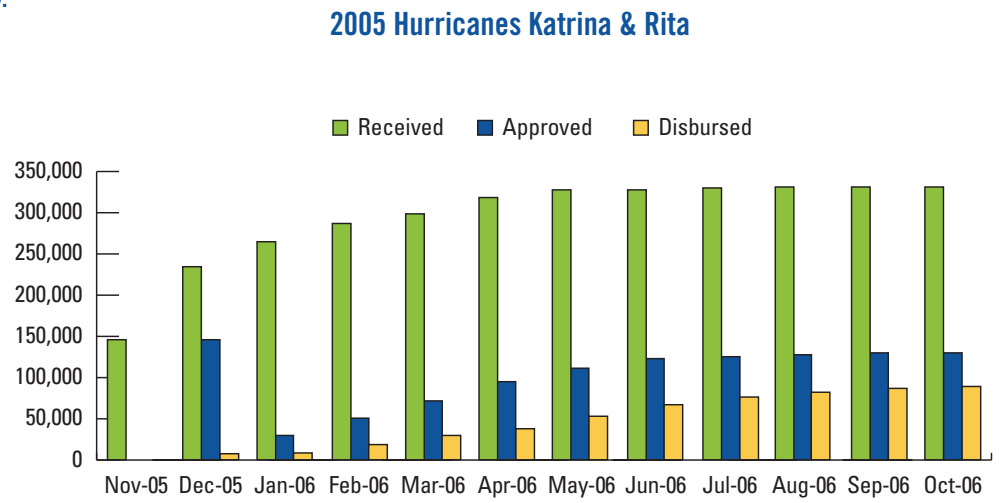
New personnel had to be trained — it takes about 30 days for new staff to become fully productive — and office space had to be located and equipped. The space requirements for such a large number of employees created additional logistical challenges. In 30 to 60 days, the Agency secured more than 400,000 square feet of space in multiple locations, utilizing satellite offices across the country. Maintaining this level of additional space permanently would significantly increase the cost of preparedness.

To deal with the number of applications being processed, the SBA implemented two working shifts in October 2006. The Agency also utilized its nationwide district office infrastructure to assist with disaster loan processing and closing. Even so, it took 74 days to process 85% of the home applications, two months longer than the goal. Further, only 55% of the closed loans had an initial disbursement within five days of closing, missing the goal of 95%. This backlog in the processing and disbursement of loans was not consistent with the level of customer service that the SBA expects to provide to disaster victims. Figure 24 shows the timeline for the reception of the loan applications, their approval and subsequent full disbursement.[44]

FY 2006 ACTIVITY CUSTOMER SERVICE CENTER BUFFALO, NEW YORK 9/05 – 9/06

- Number of calls responded to: 1,701,814
- Number of emails answered: 17,388
- Number of applications mailed: 43,758

Figure 24.



44 Loans over $10,000 have to be secured. The SBA won't decline a loan just because the applicant does not have enough collateral, but it does ask for whatever collateral is available. Usually, the security consists of a first or second mortgage on the damaged real estate. After the loan is approved, the applicant is told what documents are needed to close the loan. The money is disbursed in installments as it is needed to repair the damage or replace the property.

One of the reasons for the slower pace of the application processing was the capacity of the SBA's Disaster Credit Management System (DCMS). The implementation of DCMS in November 2004 moved the Agency toward a faster paperless processing environment by automating many of the functions previously performed manually. However, the system did not have sufficient capacity to handle the number of concurrent users required of a disaster of this magnitude, resulting in down-time and slow response times. DCMS was designed to handle 1,500 to 2,000 concurrent users. The double shift of processing employees was necessary to reduce the load on the system. The system was upgraded in June 2006 to support at least 8,000 concurrent users. This is a four-fold increase in capacity over peak usage during the response to the Gulf Coast hurricanes. In agreement with a recommendation from the GAO, further efforts to enhance productivity and overall system capacity are on-going. The SBA will continue to enhance the DCMS software and hardware components to further optimize performance and capabilities, and will perform additional stress testing as necessary to assess the impact of these changes to the new baseline. The utilization of catastrophe risk models and disaster simulations is being considered as part of the disaster planning process, and, to the extent these processes are useful, the SBA will incorporate best practices.

Figure 25 shows that hurricanes Katrina and Rita alone created an influx of 335,521 applications. A person requesting assistance typically registers first with FEMA, and then may be referred to the SBA. Twenty percent of those applications were initially evaluated and did not receive further processing. Applications that are not further processed by the SBA are returned to FEMA. An OIG audit found inconsistencies in the records between FEMA's system and SBA's DCMS due in part to the unstable transfer of data between the two systems.

In addition, the OIG and the GAO have recommended that SBA and FEMA reconsider procedures regarding automatic submission of disaster loan applications to DCMS. For example, FEMA forwarded loan applications to the SBA for applicants with zero income or with the pre-disaster income field left blank, therefore increasing the volume of ineligible referrals to the SBA. The increased application volume from ineligible persons delayed responses to those applicants who actually were qualified for the program. The OIG recommended that the SBA work with FEMA to improve the interface and formalize the error resolution process between the two systems. The SBA has provided FEMA with details relative to the issues causing the problems with the data exchange and understands that improvements in the process will be evaluated within FEMA's prioritization process.

Figure 25 also shows that 39% of the Katrina- and Rita-related applications were approved. It is important to distinguish between those loans that are approved and those that are funded. Many loans are cancelled before the first disbursement for a variety of reasons including: the borrower obtained sufficient insurance and/or grant monies to complete the project without SBA funding, or the borrower decided not to incur additional debt. Therefore, the only loans that can be disbursed are those loans that have been approved but not cancelled. Figure 25 shows that, of the loans approved and funded to victims of Katrina or Rita, 44% had been disbursed by the end of the fiscal year.

Photo courtesy of FEMA/Mark Wolfe.

It is also valuable to assess results in terms of the level of the damage in the impacted areas. Loans to applicants in Mississippi were fully disbursed at a faster rate than in Louisiana. The damage sustained by Louisiana residents was significantly greater than that in Mississippi. In and around New Orleans nearly 650,000 people lived in areas that were heavily damaged. In Mississippi, damage was extensive on the coast

where the area's casino gaming operations were affected and caused significant loss of jobs. In contrast to New Orleans, however, the number of Mississippi residents in areas of moderate or greater damage was only about 50,000.[45] The rate of loan disbursement in Mississippi compared to Louisiana is consistent with the level of damage being a factor in the percentage of funded dollars that are fully disbursed. The results of a comparison of the monthly percentages of the total disbursement – as of September 2006 — for Louisiana and Mississippi are shown in Figure 26 below.

Figure 25.

FY 2005-2006 Disaster Loans
Hurricanes Katrina & Rita

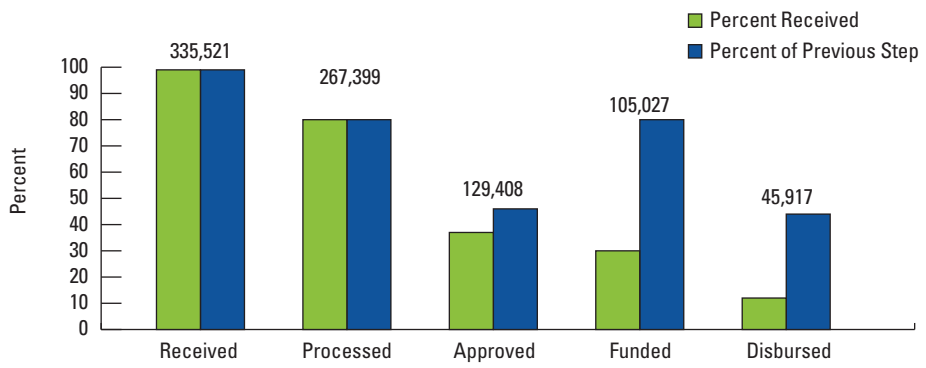
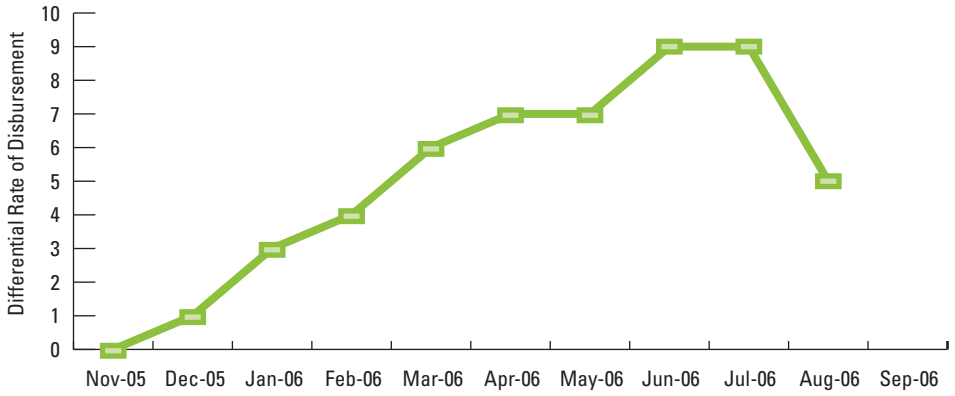


Figure 26.

Disaster Loans
Rate of Dollar Disbursement
Mississippi vs. Louisiana



From December 2005 to June 2006 the monthly percentage of total disbursed dollars in Mississippi was higher than in Louisiana. Although the rate of disbursal increased in both states, the rate in Mississippi accelerated at a faster pace. In June 2006 the difference between Mississippi and Louisiana reached nine percent before leveling off and starting to decline.

45 Logan, John R., Hurricane Katrina Project, *The Impact of Katrina: Race and Class in Storm-Damaged Neighborhoods*, Brown University, January 2006, page 14.

In an effort to provide better customer service, the SBA began a new approach, as of September 2006, to increase the disbursement rate of approved disaster loans by using a "one loan, one team" approach and by accelerating the contact with all recipients of approved but undisbursed disaster loans. Each loan is assigned a case manager and a processing team that is held accountable for the handling and resolution of the loan. The disaster victim only deals with one person from beginning to end, which makes for a more efficient and effective interaction. This initiative resulted in the weekly number of loans disbursed more than doubling by late October. By November 12, the number of loans approved but not fully disbursed had been reduced from 90,000 to 40,000, a 55% reduction. Many borrowers have not yet received a portion or all of their funds, because they are have not completed or have not even begun the rebuilding process. As a result, it is critical that the Agency have processes in place that enable a rapid disbursement of funds when the borrowers' needs occur.

The SBA will continue assessing and implementing changes to respond quickly to victims of disasters. It will keep improving its customer service, including revised process flows for applications, providing a secure Internet-based application feature for home and business disaster loan applicants, and streamlining filing requirements for applicants whose personal and business records were destroyed.

Goals Exceeded

Indicator: Loans containing disaster prevention measures (number)		
Target	**Result**	**Over Target by**
295	337	14%
Reasons for performance result		
The number of loans approved for 2004 and 2005 exceeded "normal".		
Steps being taken to improve performance or targets		
N/A		
Impact of result		
N/A		

Indicator: Percentage of businesses sustaining economic injury that remain operational 6 months after final disbursement.		
Target	**Result**	**Over Target by**
60%	86%	11.7%

Indicator: Percentage of businesses sustaining physical damage restored within 6 months after final disbursement.		
Target	**Result**	**Over Target by**
60%	74%	23.3%
Reasons for performance result		
Survey consisted mostly of 2004 hurricane victims. Current survey does not provide information about the reasons.		
Steps being taken to improve performance or targets		
The SBA will reevaluate the survey that generates the values for these outcomes		
Impact of result		
The FY 2006 outcomes reflect the effect of the SBA's assistance to victims of FY 2004 disasters. Those victims received assistance during FY 2005, and the survey that measured the SBA's impact was conducted in FY 2006. Consequently, the FY 2006 results should be interpreted together with the outputs for FY 2005. The complete survey results will be published toward the end of calendar year 2006 by the American Customer Satisfaction Index organization.		

SUCCESS STORY

Entrepreneur Counts on SBA to Begin and to Recover

Rick Ly has been in business all his life. His parents migrated from Vietnam to South Mississippi in 1981 and started the Hong Kong Supermarket in 1982. He began his own business in 1999 with a SBA 504 loan obtained through the Southern Development District. "At that time, the hotel industry wasn't that hot, so lenders were gun shy at financing 70% or more of the value of the hotel," he said. "But with the SBA 504 program, the lender shared the risk and they were more willing to take on the project."

His hard work paid off and he managed to double the hotel's revenue in just a few years. "We were acknowledged as the number one hotel of that chain in the nation based on occupancy growth," he said. "We've had the highest occupancy for a small hotel chain on the Gulf Coast for the last eight years." Using the SBA 504 loan program, he purchased another hotel property. Again, his golden touch proved itself as he managed to triple the income of his new property; all done while under renovation

Then, Hurricane Katrina struck. Rick Ly recalls the seven hour drive from Atlanta on Tuesday morning, August 30, 2005. He, his wife, and several employees had left a friend's house at 2 a.m. to check on the level of damage done by Katrina. "Many of the roads were inaccessible and others had been blocked off by the military, yet we managed to get through," he said.

His hotel property, located 23 feet above sea level, had taken almost five feet of water. Katrina was equally unkind to his other hotel property and his home, both getting close to ten feet of water. "It was an unbelievable sight," he said. "The kitchen, computers, laundry room, electrical and telephone room, everything on the first floor was lost. I didn't have flood insurance on either property because it wasn't required."

He immediately went to work rebuilding, taking nearly three months to get things together enough for power to be restored on the hotel's second floor. That effort saved the building from the destructive mold that had quickly spread throughout.

In the meantime, he pursued and was approved for a $1.5 million SBA disaster loan. "SBA's disaster loan really helped us," he said. He used the loan to recover the majority of the items damaged. "Elevators were $101,000 apiece!" he recalls. "The cost of everything had doubled, … manpower, wages, everything. We had to do what we could to open and SBA helped tremendously."

Ly reopened on November 24, 2005, operating with about 20 people and about 80% of the renovations complete. "I've dragged a few of my siblings into the hotel business with me," he laughed.

Goals Not Met

Indicator: Percentage of loans with initial disbursements within 5 days of loan closing (%)		
Target	**Result**	**Below Target by**
95%	55%	-42%
Indicator: Time to process 85% of home applications (days)		
Target	**Result**	**Below Target by**
14	74	-429%
Indicator: Time to process 85% of business physical applications (days)		
Target	**Result**	**Below Target by**
18	66	-267%
Indicator: Time to process 85% of EIDL applications (days)		
Target	**Result**	**Below Target by**
18	29	-61%

Reasons for performance result

This shortfall can be attributed to several factors, the greatest of which is the widespread and unprecedented damage that was inflicted by the hurricanes of 2005. Additionally:

- The disaster model did not forecast correctly the volume of loan applications
- The DCMS system did not have sufficient capacity, resulting in down-time and slow response times.
- The level of the local damage in the impacted areas
- Unstable transfer of data between FEMA and SBA.
- SBA had to compete with FEMA and insurance companies for qualified personnel, which limited the number that could be hired.
- Steps being taken to improve performance or targets
- The SBA has developed a new model that enhances its capability to immediately forecast loan volume.
- The DCMS system was upgraded to support at least 8,000 concurrent users. Further efforts to enhance productivity and overall system capacity are on-going.
- The SBA understands that improvements in the data exchange process will be evaluated within FEMA's prioritization process.
- To increase the disbursement rate of approved disaster loans by using a one loan, one team approach and by accelerating the contact with all recipients of approved but undisbursed disaster loans.

Impact of result

It resulted in a backlog in the processing and disbursement of the loan applications. The application processing backlog delayed the disaster victim's ability to receive disaster assistance. The delays in disbursing the disaster loans impacted the disaster victims ability to recover from the disaster.

Indicator: Percentage of homeowners restoring their homes within 6 months of final disbursement		
Target	**Result**	**Below Target by**
77%	61%	-20.8%
Indicator: Percentage of renters restored within 6 months after final disbursement.		
Target	**Result**	**Below Target by**
295	337	-22.6%

Reasons for performance result

Survey consisted mostly of 2004 hurricane victims. Current survey does not provides information about the reasons.

Steps being taken to improve performance or targets

The SBA will reevaluate the survey that generates the values for these outcomes

Impact of result

The FY 2006 outcomes reflect the effect of the SBA's assistance to victims of FY 2004 disasters. Those victims received assistance during FY 2005, and the survey that measured the SBA's impact was conducted in FY 2006. Consequently, the FY 2006 results should be interpreted together with the outputs for FY 2005.
The complete survey results will be published toward the end of calendar year 2006 by the American Customer Satisfaction Index organization.

Indicator: Customer satisfaction rate		
Target	**Result**	**Below Target by**
71%	57%	-19.7%
Reasons for performance result		
Survey consisted mostly of 2004 hurricanes applicants. Applicants generally not satisfied with the application process. Takes too much time from beginning to end and is not customer friendly.		
Steps being taken to improve performance or targets		
Since the 2005 Katrina, Rita, and Wilma disasters, we have instituted a process to give borrowers one point of contact to help them understand and get through the process. Additionally, applications have been processed by teams to ensure rapid turn around times and to ensure that the applicants get a consistent message.		
Impact of result		
Applications are processed to a decision faster. Applicants have a better understanding of the next steps in the process and they have a consistent contact point for questions.		

STRATEGIC GOAL 4

Ensure that all the SBA programs operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services

Effective, sound management is the foundation that supports the SBA in fulfilling its mission. The Agency's non-programmatic areas of general management and administration, along with human capital, information technology and financial management functions, exist primarily to support SBA programs. The best measure of success is the degree to which these functions help maximize the efficiency and effectiveness of the Agency in achieving its programmatic goals, while also complying with relevant statutory and administrative mandates.

The Agency strives to meet Strategic Goal 4 by focusing on the following Long-Term Objectives:

LTO 4.1 SBA's general planning and management will result in clearly defined goals and effective strategies, and the coordination of operational support systems, so as to maximize the Agency's mission performance through a comprehensive performance management system.

LTO 4.2 The SBA will recruit, sustain and effectively deploy a skilled, knowledgeable, diverse workforce and executive cadre capable of executing high quality programs and activities that meet the current and emerging needs of its customers.

LTO 4.3 Financial management systems will support both the SBA strategic management and financial accountability by providing financial information that is useful, relevant, timely and accurate and which assists the SBA in maximizing program performance and accountability.

LTO 4.4 Information and related technology will be managed effectively and securely through SBA leveraging data and systems to support program execution and promote cost efficiency.

LTO 4.5 Procurement and contracting services will be planned and managed to support the SBA program management and the achievement of the Agency's goals.

Each Long-Term Objective supports one or more of the following functional areas:

- Administrative Management,
- Human Capital Management,
- Financial Management,
- Performance Management, and
- Information Technology Management.

The following pages present the outcome measures for Strategic Goal 4 by functional area. Appendix 2, on page 269, provides a visual crosswalk of the outcome measures to the functional areas.

SUCCESS STORY

This Business May Not Have Known it, But the SBA Had its Back!

Mark Lore, President of Ride-Away Handicap Equipment Corporation, remembers the disastrous New Hampshire bank failures of the early 90s. Many fledging companies were facing financial ruin, Mark recalls. "They came to me and said, 'we're calling in your notes.' I said, 'what am I going to do?' They said, 'go find another bank.'" Mark's company was running a profit with $4 million in annual sales, and he had never been late or missed a payment. Still, he couldn't find a bank that wanted his business.

With a young family to support and employees and customers who depended on him, Mark didn't know what to do. "I was actually talking to one of my clients in the showroom about the situation. I was thinking I was going to go bankrupt," he remembers. The customer suggested he call the SBA. Mark said, "What's the SBA?"

In December 1991, the SBA was already aware of the potentially disastrous consequences unfolding in New Hampshire. By January 1992, SBA loan officers were culling through the thousands of loans acquired from failed banks by the Federal Deposit Insurance Corporation to see which businesses could be saved. It was about this time that Mark made his call.

With the SBA's 504 and 7(a) loan programs, Mark's business, along with hundreds of others, was saved. Today, Ride-Away is a $30 million-a-year business with 120 employees, six store locations, and is the east coast's largest provider of modified vehicles and adaptive equipment for the disabled. Mark notes, "Without the SBA, Ride-Away is one company that would not have survived to serve the clients we do."

ADMINISTRATIVE MANAGEMENT

To excel, the SBA's program offices need strong executive leadership and efficient and effective support services. The following outcome measures, numbered to correspond with the LTOs, describe performance in the area of Administrative Management.

OUTCOME MEASURE 4.1.1 – By FY 2008, through effective policy guidance, leadership and administration, ensure that the SBA regularly achieves at least 90% of its annual performance goals.

In FY 2006, the SBA met or exceeded 53 of its 69 Annual Performance Goals, or 77%.

The SBA Office of Administrative Service directs and executes all administrative management functions within SBA headquarters and monitors administrative programs in field offices. The Office develops policies and procedures for the procurement of supplies, equipment and non-personnel services. It also implements and manages approved grants and cooperative agreements. In FY 2006 key accomplishments included:

- Rent initiative to reduce space — Over 73,000 square feet of space was returned to GSA (General Services Administration) for an annual savings of almost $2 million. The SBA also updated its policy on space acquisition and utilization, providing heads of field offices clear guidance on managing office space.
- Procurement and grants management — Processed more than 487 awards, including modifications, purchase orders and contracts. Of these awards, approximately 66% of the dollars went to small businesses. This is down from 72% in FY 2005, but up from 59% in 2004. The reduction from last year is due to several large contract efforts for Disaster and the Office of the Chief Financial Officer. The SBA purchased services from large businesses that in previous years were provided by the U.S. Treasury Department.
- Developed a design of the headquarters lobby which incorporates all the security upgrades that were recommended by Homeland Security. The SBA also met the implementation date of Homeland Security Presidential Directive 12 (HSPD-12) mandated by the OMB. The Agency is working to identify and implement a common identification standard/policy for federal employees and contractors.

The SBA Office of Hearings and Appeals provides an independent, quasi-judicial appeal of certain SBA program decisions. It formally adjudicates disputes arising in numerous jurisdictional areas. These include appeals having to do with SBA formal size determinations; appeals from contracting officer designations of NAICS codes for procurements government-wide; 8(a) business development program eligibility, suspension, and termination appeals; and FOIA appeals. In FY 2006, the SBA developed and published a sample 8(a) eligibility appeal format to simplify the process and assist those who choose to file an appeal without the assistance of an attorney.

The SBA also developed and submitted to OMB an Agency-specific plan to improve FOIA operations for FY 2006 and 2007. SBA developed a survey instrument and conducted a review of the Agency's FOIA operations. The Agency's FOIA Improvement Plan was developed based on the results of the review.

Through the Office of Communications and Public Liaison, the SBA initiated a series of projects in FY 2006 to more efficiently enhance the visibility of the Agency and improve communications with employees. Highlights include:

- Developed new information materials to better communicate, in a variety of formats, the SBA's products and services, including the aggressive use of print and electronic publications to communicate disaster assistance-related information.
- Enhanced the look and feel of the Agency's web site and added an interactive feature to attract visitors.
- Provided marketing training to headquarters and field staff, including online instruction on topics related to marketing and press functions.

- Conducted two employee town hall meetings and produced video-on-demand products for employees.

The Office of Policy and Planning works to ensure that all SBA programs operate at maximum efficiency and effectiveness, to help create clearly defined goals and effective strategies, and to help SBA leadership minimize the regulatory, taxation, and health care burdens on small business. FY 2006 highlights include:

- Provided briefings for the Administrator and senior staff on significant policy and regulatory issues and assisted with Congressional hearing preparation.
- Established the SBA Policy Board, which now considers new programs and projects at the earliest stages to help maintain efficiency and consistency with the Administration's priorities.
- Implemented the development and integration of the Urban Entrepreneur Partnership, including the development of the official web site for the initiative that was launched in July of 2006 (www.uep.gov).
- Provided leadership, strategic guidance and advice on the Agency's proper policies concerning venture capital investment in firms that participate in the Small Business Innovation Research (SBIR) program.

The SBA Office of General Counsel supports all of the Agency's strategic goals by providing cost effective, quality legal products and services. It strives to defend the Agency in all legal matters; participate in the Agency's implementation of external and internal initiatives; and support the Agency in its execution of A-76 competitions. The office was successful in achieving each of these goals and, in so doing, contributing towards the accomplishment of the Agency's long-term objective, specifically:

- As enforcement counsel for the Small Business Investment Company (SBIC) program, collected $292 million and resolved more than 800 separate assets.
- Reviewed and approved the transfer of 16 SBIC licenses to liquidation status, with outstanding leverage at the time of transfer of over $315 million.
- Negotiated a $9 million settlement in favor of the Agency in a False Claims Act case.
- Successfully defended the Agency in 26 EEOC cases and five MSPB cases.
- Worked closely with Capital Access to provide the legal staffing necessary to remove a backlog of over 6,100 loan cases ready for charge-off.
- Completed legal review of approximately 200 cases following the Agency's purchase of the guaranteed portion of the loans to ensure that the lenders had closed, serviced, and liquidated the loans in compliance with program requirements.
- Resolved legal issues relating to the competitive sourcing of the legal functions relating to the disaster loan servicing functions.

OUTCOME MEASURE 4.1.2 — By FY 2006 lead SBA to achieving/maintaining a rating of "Green" on each of the five initiatives on the PMA.

The President's Management Agenda contains five government-wide goals to improve federal management and deliver results — Strategic Management of Human Capital; Competitive Sourcing; Improved Financial Performance; Expanded E-Government; and Budget and Performance Integration. In addition to these, SBA has three agency-specific goals — Faith-based and Community Initiatives; Eliminating Improper Payments; and, added in FY 2006, Improved Credit Management.

For each initiative, agencies are rated on Status and on Progress. A "Green" rating indicates that the Agency has been successful in the element, and that it met established standards. A "Yellow" rating means mixed results, with some standards not met. And a "Red" rating is unsatisfactory, indicating serious flaws are present.

During FY 2006, the SBA earned a "Green" rating on Progress on all five of the government-wide goals, a solid indicator that the Agency is on the right track to fully achieving its goals.

On the Status measure, the Agency earned a "Green" rating on three of the five initiatives. It earned a "Yellow" Status rating for Human Capital, showing that some but not all standards were met.

For the initiative on Budget and Performance Integration, the Agency has maintained a "Green" rating on both Status and Progress for 24 straight months.

For the Financial Performance initiative the Agency earned a "Red" on Status. By way of explanation, as the result of a restatement of a FY 2005 footnote on the amount of SBA's loan guaranty portfolio, the auditor found a continuing material weakness in SBA's financial reporting process. The SBA is committed to eliminating this material weakness in FY 2007 through improved documentation of its quality assurance procedures, adjustments to its financial reporting schedule, and through further automation of manual accounting processes to improve efficiency and increase the reliability of financial data. In FY 2006, the SBA maintained its unqualified opinion on its financial statement audit for the second year in a row.

For the three Agency-specific goals, the SBA showed mixed results. It earned a double "Green" rating on Status and Progress for the initiative on Eliminating Improper Payments, showing an improvement from "Yellow" on Status last year.

For Faith-Based and Community Initiatives, the Agency earned a "Green" rating on Progress but showed a "Red" rating on Status. The Agency completed 15 of the 16 FY 2006 milestones; in order to complete the 16th milestone it is redesigning a survey tool for determining the value of its workshop training for Faith-Based and Community Organization participants.

Improved Credit Management, a new initiative in FY 2006, is focused on improving the management and oversight of the guaranteed loan portfolio and the disaster loan portfolio from a credit management perspective. The SBA met 12 of 15 milestones this year, earning a "Red" rating on Status and a "Yellow" rating on Progress. Three milestones were not met for the following reasons. First, a contract award was projected to have occurred earlier in the year so that the results of the review would have been received by fiscal year end. Since the contract was awarded at year-end, results were not available to meet that aspect of the milestones. Second, liquidation regulations were not finalized as subsequently identified policy issues required additional analysis. Finally, while centralization of the 7(a) loan processing and 504 liquidations were approved and implementation plans developed, the SBA was unable to move forward without Congressional notification and approval for the reprogramming activities. Full approval was received in October 2006.

OUTCOME MEASURE 4.1.4 — By FY 2004 and each year thereafter, SBA district offices' goals will consistently, directly, and measurably support the Strategic Goals and Long-Term Objectives of the Agency, as established in the Strategic Plan.

The role of the SBA's district offices is changing, due in part to the Agency's Transformation Plan to modernize the workforce and rearrange business processes. For example, backroom functions of the 7(a) and 504 loan programs have been centralized, where before many of these functions were performed at the district office level. The goals remain consistent with the mission of the Agency,

The SBA Office of Field Operations provides guidance and oversight to the field offices for the purpose of defining goals and effective strategies, and coordinating operational support systems so as to maximize SBA's resources. FY 2006 highlights include:

- Provided formal training for Administrative Officers in the field on federal rules and regulations as well as internal procedures and reporting requirements.

- With the Office of Business Development, conducted a Business Development Training conference that resulted in the identification of the top recurring issues and developed recommendations for the Administrator.
- Conducted a survey of regional and district offices to access the level of customer service provided by the headquarters staff. Four performance goals were established on the SBA scorecard to track the results: Communication, Timeliness, Courtesy, and Customer Service. An improved follow-up survey was conducted in July 2006 and will be repeated annually to assess customer satisfaction.

HUMAN CAPITAL MANAGEMENT

The SBA recognizes that human capital is applied talent: the sum of talent, energy, knowledge and enthusiasm that people invest in their work. Management of human capital is the key to having a well-trained, skilled, motivated, diverse, accountable and satisfied workforce that delivers results. The SBA is committed to continuous improvement of human capital programs and processes to ensure that SBA has an effective workforce to carry out its mission. The foundation of the SBA and the key to the Agency's future success rests with its workforce.

The following outcome measures, numbered to correspond with the LTOs, describe performance in the area of human capital management.

OUTCOME MEASURE 4.2.1 — In FY 2004, and maintained each year thereafter, SBA will achieve a rating of Green for having met all of the Core Criteria of the Human Capital initiative on the PMA.

The SBA earned a "Green" rating on "Progress" for Human Capital, indicating that the Agency is on the right track in this initiative. It earned a "Yellow" Status rating, unchanged from fiscal years 2005 and FY 2004, showing that some, but not all standards were met.

In FY 2006, the SBA met all of its 2006 milestones and deliverables for this initiative. Highlights include:

- Updated the Strategic Human Capital Plan that contains the Human Capital Accountability and Assessment Framework systems and measures for success.
- Revised recruitment plans for mission critical occupational series to ensure that the SBA will receive a diverse pool of highly qualified applicants.
- Moved the human resources processes to a paperless environment.

In its efforts to obtain a "Green" rating on Status, the Agency continues to improve progress in three remaining areas: succession planning, skill gap narrowing, and the human capital accountability system.

In FY 2006, the SBA drafted a formal leadership succession plan that was submitted and approved by Office of Personnel Management (OPM). To mitigate its skills gaps, the Agency re-administered its mission critical occupations skills and competency gap survey.

OMB required Federal agencies to include leadership with their mission critical occupations. To address this new requirement, the SBA performed a gap analysis for its human resources specialists and developed and implemented a plan to narrow the gap. The Agency also conducted an online training needs assessment for all managers and supervisors that focused on improving leadership and management skills. A similar assessment was conducted for all SBA employees that focused on skills improvement. SBA employees' interest in receiving more training opportunities was evidenced by a high 75% participation rate.

OUTCOME MEASURE 4.2.2 — As a result of a revised management and performance culture, SBA employees' rating of overall satisfaction with their jobs will increase each year and by FY 2008 will exceed the government-wide average by at least 10%.

In FY 2005, the SBA ranked last on the Federal Human Capital Survey of Federal Employees, a tool that measures employees' perceptions of whether conditions that characterize successful organizations are present in their agencies. To improve results in FY 2006, the SBA's strategies for improving employees' rating of overall satisfaction with their jobs were focused principally on communications and training initiatives.

To improve communications, in FY 2006 the SBA conducted "Administrator Town Hall" meetings. The core questions asked by employees, and addressed by the Administrator, were in the areas of training, job security, and job performance. SBA also administered a survey for the new Administrator to obtain feedback from employees regarding their needs for tools and resources to perform their assigned tasks.

To better prepare employees for the work they do, the SBA completed a training initiative based on survey results from employees and managers. Each employee developed an employee-centered Career Development Plan that included achievable individual-centered professional development strategies and goals with realistic milestone completion dates.

In late FY 2006, OPM announced the second Federal Human Capital Survey. Results, when they become available, will give the SBA critical information to determine whether the target for FY 2006 was met and will help the Agency make improvements based on employee perceptions.

Throughout the year, the SBA works to advance diversity at all levels. During FY 2006, it conducted an agency self-assessment, analyzed workforce data, and identified barriers to equal opportunity. It developed and conducted in-house training on equal employment opportunity (EEO) and civil rights compliance for newly appointed district directors; and basic EEO counselor training was provided to new collateral duty EEO counselors.

SBA's Transformation Plan to modernize the workforce and rearrange business processes to make the Agency more efficient was completed in FY 2006.

The Agency also worked with the national and local union presidents to create a new Master Collective Bargaining Agreement.

OUTCOME MEASURE 4.2.3 — The percentage of SBA employees possessing core competencies identified for their positions is identified in FY 2004 and the resulting gaps in current and future skills and competencies in mission-critical occupations is reduced by 20% each year.

In FY 2006, the SBA re-administered the skills and competency gap analysis for mission-critical occupations (MCO) after flaws were discovered with the vendor's raw survey data in the FY 2005 assessment. The Agency will subsequently assess skills and competencies, analyze gaps and revise the Agency's gap mitigation plans for MCOs in FY 2007 in an effort to ensure gaps in job-critical skills are effectively narrowed and ultimately closed.

The Agency's management and leadership training program – "LEAD" (Leadership Effectiveness through Active Development) — is dedicated exclusively for managers and supervisors to ensure SBA has a qualified pool that possess OPM's Five Executive Core Qualifications. LEAD provides developmental opportunities to managers and supervisors through instructor-led training, online training, speakers' forums, and other training tools for the individual.

OUTCOME MEASURE 4.5.1 — By FY 2006, SBA will achieve a rating of Green for having met all of the Core Criteria of the Competitive Sourcing initiative on the PMA.

The SBA fully succeeded by achieving a rating of Green in both Status and Progress for having met all of the core criteria of the initiative. All milestones and deliverables were met. Highlights include:

- Improved the alignment of competitive sourcing efforts with the Agency's human capital transformation initiative.
- Announced the competition for drivers and mailroom activities.
- Incorporated 2006 FAIR ACT guidance into competitive sourcing plans.
- Developed funding strategies for proposed FY 2006/2007 competitions.
- Developed a schedule to review competitions after implementation for validation of projected cost and performance impact.

OUTCOME MEASURE 4.5.2 — By 2006 and maintained each year thereafter, the average time for competitive sourcing competitions will decrease to 12 months, from the FY 2003 baseline of 36 months.

The time for competitive sourcing competitions averaged 12 to 16 months in FY 2006. While this was an improvement over the baseline of 36 months, the shortfall in reaching the 12-month target was due to the unforeseen heavy workload. By 2007, the average time for competitive sourcing competitions can be expected to decrease to 12 months.

FINANCIAL MANAGEMENT

To fulfill its mission and serve the interests of small business, the SBA is committed to strong financial management and proper stewardship of taxpayer dollars. The following outcome measures, numbered to correspond with the LTOs, describe performance in the area of Financial Management.

OUTCOME MEASURE 4.3.1 — By FY 2007, achieve a status rating of Green for the Financial Management initiative of the Presidents Management Agenda.

In FY 2006, the SBA achieved a rating of "Green" on Progress for the initiative, but received a "Red" on the Status measure. The SBA maintained its unqualified opinion on the FY 2006 financial statement audit but, as a result of the restatement of a FY 2005 footnote on the amount of SBA's loan guaranty portfolio, the auditor found a continuing material weakness in the internal control over the SBA's financial reporting process. This repeat material weakness, along with the FFMIA non-compliance finding for financial management systems, precludes the SBA from improving from "Red" Status until these issues are resolved. The SBA expects to resolve these issues in FY 2007. Specifically, the Agency will document quality assurance performed on the financial statements to address the auditor's finding on SBA's financial reporting process. Also, the financial reporting process will be reviewed to fine tune the year-end schedule including the entry of subsidy re-estimates. Additionally, plans are to further automate year-end accounting entries to minimize manual accounting activity and to make the reporting process more efficient and reliable. Many of the necessary improvements in the financial systems area are already well underway and the Office of the Chief Financial Officer will coordinate with the Office of the Chief Information Officer to take the steps necessary to resolve the remaining issues.

This year the Agency completed actions to address virtually all of the issues raised by its independent auditor in the FY 2005 financial audit, while meeting the accelerated November 15th financial statement deadline for the third year. It continued to use internal teams to address the audit findings and solve problems that required the involvement of subsidy, budget and accounting personnel. The team-based process has helped facilitate strong communication and accountability within the Agency.

During FY 2006, the internal control processes over financial reporting and subsidy cost modeling were further enhanced. The SBA accountants and modeling personnel use cash flow reports to ensure consistency of loan program data at key points in the modeling and accounting processes. This is a critical element in the quality control over the loan program accounts in the Agency's financial reports. Several key staff resources were added to the financial reporting team during the year, and staff skill was enhanced through training, including budgetary accounting. This facilitated more quality assurance testing throughout the yearly reporting cycle that enhanced internal control. The control process over accounting and reporting changes was enhanced during the year to better document and control changes made. Also, the SBA's advisory committee of recognized financial management experts met several times during the year with Agency financial managers and audit personnel to promote financial management improvement.

SBA's credit subsidy modeling team continued to enhance the controls around the data, models and processes used in estimating the credit program costs. The modeling team now completes annual subsidy re-estimates for every program including the smaller credit programs. The team developed quarterly reports for credit program managers during the past year that provide key information about the performance of SBA's credit programs.

The SBA successfully implemented the enhanced internal controls over financial reporting in FY 2006, as required by Appendix A of OMB Circular A-123. Internal controls tested included the financial reporting process, the budget process and the guaranty reporting process for the Agency's 7(a) program. The findings of this review were consistent with previous audits. They included several program operating deficiencies but none that were significant enough to have a material effect on SBA's financial reports.

Beyond attaining and maintaining a clean audit opinion with no material internal control weaknesses, to achieve a "Green" rating, the Agency must continuously expand the use of financial management data by program managers for decision-making. During FY 2006, the SBA completed three initiatives in this area. The first was the initiative to charge off defaulted 7(a) and 504 guarantied loans where all liquidation opportunities had been exhausted. The Treasury Report on Receivables and other reports showed a growing balance of defaulted loans in liquidation. The SBA determined the existing processes were not working as intended and established a project to resolve the situation. The second initiative was to reduce late interest payments to vendors required by the Prompt Pay Act. By generating and circulating monthly reports on late interest payments and creating a new procedural notice, the SBA increased understanding of the invoice payment process and reduced overall late interest payments by 32% compared to FY 2005. Finally, the Agency continued its efforts to establish a best-in-class lender and loan oversight system. The SBA rated all of its lenders based on overall credit exposure to the Agency. Those ratings were used to determine the priorities for on-sight and off-sight lender reviews.

OUTCOME MEASURE 4.3.3 — Each year, SBA financial systems will meet the standard as prescribed in the Federal Financial Management Improvement Act (FFMIA).

The SBA has made great progress in this area. As part of the FY 2006 financial statement audit, the Agency's independent auditor found it in compliance with the FFMIA requirements for accounting standards and the Standard General Ledger, but found the Agency non compliant with financial systems standards due to an internal control deficiency in information system security. This is an improvement from last year when the SBA's auditor found the Agency in non compliance in all three areas.

The SBA's systems are still subject to lingering information technology constraints and limited resources. The Agency has begun a long-term project to develop a new loan management and accounting system, but this is a project that will be funded gradually and not completed for several years.

The Agency has developed effective compensating procedural controls over its financial management activity to support its financial systems processing. During FY 2006, the Agency tightened control over program and administrative processing. Its financial data was subjected to comprehensive, thorough quality assurance processes in its interim and year-end reports, especially budgetary data. Internal control over financial management was also improved through the implementation of the new OMB A-123 internal control requirements.

As discussed under LTO 4.4, the SBA continues to make improvements in its information technology management, and it will be able to build on these improvements in FY 2007 to resolve the FFMIA non-compliance issue. Working together as a team, the OCFO and the OCIO will take additional steps to strengthen the Agency's information security, ensure proper segregation of duties among technology staff, and effectively utilize and document proper change control procedures.

OUTCOME MEASURE 4.3.4 — Each year, SBA will receive an unqualified opinion on its financial statement audit.

SBA is proud to have achieved a clean audit opinion in FY 2006 for the second year in a row. This year's unqualified opinion substantiates last year's unqualified opinion by a previous auditor. This accomplishment reflects a genuine and significant improvement in the financial management capacity and practices of the Agency. The SBA was able to achieve its goal primarily by working steadfastly over the past several years to address a number of systemic financial management issues. Its improved financial management processes will provide ongoing benefits to the SBA as it faces ever-new challenges in the future.

PERFORMANCE MANAGEMENT

OUTCOME MEASURE 4.3.2 — By FY 2005, achieve a rating of Green for the Budget and Performance Integration initiative of the PMA.

The SBA achieved a Green rating for the Budget and Performance Integration initiative of the President's Management Agenda in FY 2004 – well ahead of schedule. The Agency is proud to have maintained this Green rating, on both progress and status, ever since.

The cornerstone of the Agency's integration of budget and performance is its five-year strategic plan. The plan was designed so that all Agency programs and operations support SBA's four goals. Each goal has long-term objectives with measurable outputs, intermediate outcomes, and outcomes. Through the SBA's activity-based costing model, the use and priorities of resources that the Agency devotes to achieving its mission are clearly identified. These resources are reported in documents such as this PAR, and in all budget submissions to OMB and to the Congress. The information is also used during all internal planning and budget exercises. The SBA makes use of this information in a number of ways:

- It has been used to compare different 7(a) delivery systems, leading the Agency to terminate use of the most costly one.
- The Agency is able to compare the costs of different programs, such as the 7(a) program vs. the Microloan program, showing how much more costly the latter is.
- The SBA understood how costly one of its management assistance programs was, leading to the termination of that program.

- The Agency analyzed how costly certain decentralized operations were, and was able to show savings once operations were centralized.
- The information demonstrated the increasing efficiency of the 7(a) program.

This year the SBA faced a new challenge in using the results of its activity-based costing model. This methodology measures the full cost of the SBA's programs, including direct, indirect, and overhead costs. In the past, total Agency overhead averaged about 22%. Included in Agency overhead are such items as: general planning and management; human capital management; information technology management; and procurement and administration. FY 2006, and to a lesser extent, FY 2005, were anomalies. These anomalies were due to the size of the Disaster assistance program. Whereas in FY 2002 to 2004, the direct and indirect costs of that program averaged $122 million, in FY 2005 and 2006 such costs were $219 and $451 million respectively. As a result, the FY 2005 and 2006 overhead rates were only 17% and 12% respectively. Therefore, all non-Disaster programs bore a significantly smaller overhead burden in FY 2006 than in previous years. This fact biases any comparison of program costs among fiscal years. For example, in a comparison of non-Disaster programs from FY 2004 to FY 2006, the total of direct plus indirect costs (excluding grants) decreased by two percent; once overhead is added, the decrease is nine percent. This impact of the Disaster program on agency-wide overhead should be noted when making comparison among fiscal years.

In FY 2006 the SBA's efforts in budget and performance integration focused on two major areas: program evaluations and marginal cost analysis. The SBA contracted for an independent analysis to evaluate the impact of its financial assistance programs. Measuring the true impact of federal programs can be extremely challenging as can determining the validity of the outcomes that are measured. During FY 2006 the Agency completed detailed planning for the evaluation of its financial assistance programs, and results are expected in FY 2007. These results will be used to help revise and improve the strategic plan in FY 2007 by allowing the Agency to set targets for the outcomes that measure SBA's impact. In addition, the SBA completed the second year of a longitudinal impact study of management assistance programs. This three-year study should also be completed in FY 2007. In addition, the SBA intends to initiate an independent evaluation of its procurement assistance programs.

In FY 2005 the SBA developed an analysis to determine the marginal cost of its programs. In FY 2006 the analysis was expanded to include the SBDC and HUBZone programs. The results were used for internal decision-making in formulating the Agency's FY 2008 budget request. In addition, the lessons learned from the impact of the Gulf Coast hurricanes on the Disaster loan-making operation led to the creation of a model to calculate the administrative requirements and cost of that program under a wide range of disaster scenarios. It is believed that this model will help the Agency quickly determine its resource requirements when disasters of various magnitudes strike.

OUTCOME MEASURE 4.1.3 — By FY 2008 all major programs rated by OMB will receive a PART evaluation of "Effective". By FY 2006, SBA will ensure that at least 60% of major SBA programs rated by OMB receive a PART evaluation of "Effective" and that none is rated less than "moderately effective".

The Office of Management and Budget (OMB) uses the Program Assessment Rating Tool (PART) to assess federal programs. The PART represents a series of diagnostic questions used to assess and evaluate programs across a set of performance-related criteria, including program design and purpose, strategic planning, program management, and results. Rating results are classified into one of five categories: Effective, Moderately Effective, Adequate, Ineffective, and Results Not Demonstrated.

The OMB rated ten of the SBA major programs.[46] Of these, only the Disaster Loan Program was rated "Effective." Those rated "Moderately Effective" were the HUBZone Program, SCORE, and the Small Business Development Centers. The SBA is working to maintain the rating for the Disaster program and improve the rating of the others from "Moderately Effective" to fully "Effective."

Four programs were rated "Adequate"— the 8(a) Business Development Program, Small Business Surety Bonds, the Section 504 Certified Development Company Guaranteed Loan Program, and the Section 7(a) Guaranteed Loan Program. To improve the performance of these programs, the SBA is taking the following actions:

8(a) Business Development Program — The purpose of this program is to help grow small businesses owned by socially and economically disadvantaged individuals. To improve the program, the SBA is 1) strengthening criteria related to economic disadvantage; and 2) implementing new information technology management systems including electronic applications, annual review processing and a dynamic management reporting system.

Small Business Surety Bonds — The purpose of this program is to assist small, disadvantaged and competitive opportunity gap contractors obtain bonding for public and private contracts. To improve the program, the SBA is 1) restructuring the field component of the program and linking district office goals to program performance; 2) implementing an Internet-based application and claim processing system; and 3) undertaking an evaluation of the program.

504 Certified Development Company Guaranteed Loan Program — This program provides long-term, fixed rate financing to small businesses for property and heavy machinery purchases. To improve the program, the SBA is 1) changing loan servicing requirements so that intermediaries are responsible for loan liquidations in the event of a default, and 2) developing an evaluation strategy to ensure that loans supplement rather than compete with private sector credit.

7(a) Guaranteed Loan Program — This program provides general financing to small businesses that cannot obtain credit on reasonable terms from other sources. To improve the program, the SBA 1) consolidated the loan liquidation function from 69 district offices to a single center in order to reduce costs and ensure consistency in processing, 2) identified other loan management strategies to further reduce administrative costs, and 3) is developing an evaluation strategy to ensure that loans supplement rather than compete with credit available from other sources.

OUTCOME MEASURE 4.3.5 — By FY 2008, budgeting and performance measurement will be fully integrated at SBA.

The SBA continues to work to meet this outcome, using and improving its activity-based costing model to allow for the creation of efficiency measures with increased utility for managing the programs. In addition, the Agency has integrated the various phases of the budget planning cycle with program performance measurements. These practices will continue to build on themselves, and the SBA will remain a Federal Government leader in this area. The SBA has maintained a double Green rating on the Budget and Performance Integration initiative of the President's Management Agenda for two years in a row.

OUTCOME MEASURE 4.3.6 — By FY 2008, 75% of non-financial managers will agree with the statement that financial performance information is being used in SBA budget formulation and strategic planning and that they understand how such uses have been relevant to their own areas of responsibility.

46 Two of the ten programs rated were discontinued by the SBA—Business Information Centers and Small Business Investment Company. They are not discussed in this section.

The cornerstone of the Agency's integration of budget and performance is its strategic plan. The plan was designed so that all programs and operations support the SBA's four goals. Each goal has long-term objectives with measurable outputs, intermediate outcomes, and outcomes. Through use of the SBA's activity-based costing model, the resources devoted to programs and outputs are clearly identified.

During FY 2006, all of the SBA's non-financial managers were trained and received regular briefings on principles of budget and performance integration, and they used information about allocated resources as a factor in determining targets and evaluating performance.

INFORMATION TECHNOLOGY MANAGEMENT

The core of the SBA information technology strategy is a concerted effort to provide services and products to small firms and SBA employees when they need it, wherever they are, and in a format that is user-friendly, comprehensive and cost-effective. It focuses on maximizing service delivery while minimizing the cost of operations associated with both government-wide and Agency systems. Internally, the Agency is building the capacity to deliver web services directly and in collaboration with the federal community. This includes efforts to deliver the SBA's internal core businesses online (e.g., procurement, travel, training, human resources). Externally, the SBA collaborates with the private sector to sensitize and educate small businesses on the importance of the Internet to their survival and growth; on methods of utilizing e-commerce through distance learning tools to create training and education programs with resource partners; and to advocate for infrastructure improvements and legislation that help small businesses get online. SBA is also working to deliver all of its goods and services online, expanding its outreach to more small businesses and providing more user-friendly assistance to help them succeed.

The following outcome measures, numbered to correspond with the LTOs, describe performance in the area of Information Technology Management.

OUTCOME MEASURE 4.4.1 — Continue the Agency's progress toward "Enterprise Architecture" by aligning Agency's program and systems.

An "Enterprise Architecture" is a blueprint for organizational change that describes how the entity operates today and how it intends to operate in the future. It also includes a plan for transitioning to this future state. The SBA continues progress on implementing a comprehensive program of information technology governance practices, including an "Enterprise Architecture" by aligning Agency program goals and line of business practices with actual and proposed information technology systems. Aligning proposed IT investments with the Enterprise Architecture should ensure that SBA's business needs are matched with IT projects that will deliver measurable results that contribute to improved program delivery for the public.

OUTCOME MEASURE 4.4.2 — By FY 2008, standardized Information Technology (IT) portfolio selection, control, and evaluation processes and performance metrics will be developed and used to gauge the progress of investments and their contribution to program outcomes.

This is the Agency-level set of practices and methods by which proposed information technology projects are developed, approved and reviewed for performance as an active portfolio of key investments. This process is married to the Enterprise Architecture policies, project management practices and the Agency's Strategic Plan so that the theory and results of IT planning achieve the best practical results for the Agency when measured by cost and performance.

By applying Earned Value Management, the SBA continues to work to ensure that major IT projects are within cost, schedule and performance objectives and that all SBA IT systems are certified and accredited. Principal achievements in the main components in this area were:

Enterprise Change Control Board — OCIO is leading the establishment of an Agency Enterprise Change Control Board to ensure enterprise-wide change management of the Agency's major application systems (*software*) and technical infrastructure (*hardware*) to ensure technological standardization across the Agency. The configuration and change management of standardized technologies across the Agency reduced maintenance costs and increased the reliability of the Agency's technology environment and infrastructure.

Capital Planning and Investment Control — SBA made significant progress in maturing its Capital Planning and Investment Control and was recognized by OMB for its IT investment management practices and progress. OCIO continued maturing the Agency's CPIC guidance, developing an Agency-wide IT performance measurement framework and reporting model, consisting of two "SBA IT Portfolio Dashboards." That management framework was used to monitor the performance of the Agency's entire IT portfolio and to report results to OMB. The Dashboards reflect IT project performance in terms of cost and schedule metrics, IT security vulnerabilities, compliance with Agency technical standards, and compliance with Agency system development and investment control policies.

IT Infrastructure Modernization Project — Infrastructure modernization is the periodic improvement of these supporting systems to ensure they are operating at peak efficiency. The IT Infrastructure Modernization Project, that began in FY 2006 and will be concluded during the first quarter of FY 2007, will align SBA infrastructure to the Enterprise Architecture and bring modern technologies and efficiencies to key areas including desktop and server software upgrades, messaging, and networking. This project consists of three phases: Planning, Proof of Concept, and Deployment. In FY 2006, the SBA completed the first two phases and initiated phase three, Deployment, which is expected to continue into early FY 2007.

OUTCOME MEASURE 4.4.3 — SBA will continue to achieve efficiencies of business processes and cost reductions by taking advantage of the economies of scale offered by participating in common E-Government solutions and technologies.

The focus of this initiative is to ensure that the Federal government's $60 billion annual investment in information technology significantly improves the government's ability to serve citizens, and that IT systems are secure, and delivered on time and on budget.

One of the goals is to eliminate redundant systems. The SBA participated in 28 E-government initiatives and is the managing partner for the Business Gateway initiative. A first stage analysis completed at the end of FY 2006 indicated that SBA had no planned systems that would be halted, or existing systems that would be retired, because of duplication with E-government initiatives. During FY 2007 the SBA will conduct an assessment to determine what benefits the Agency may be realizing from its participation in these cross-government initiatives. For example, the SBA was one of only a few agencies to begin implementing E-authentication, allowing secure, single sign-on to a number of agency-specific applications. During FY 2006, SBA doubled (from 15 to 31) the number of applications available to the public through its E-authentication portal.

In FY 2006 SBA made significant improvements to the Agency's overall IT Security Program. It continued to mitigate and or reduce risks associated with IT security vulnerabilities identified in Federal Information Security Management Act (FISMA) GAO and OIG reviews. It certified and accredited critical and non-critical IT systems as required by FISMA; modified and implemented Security and Privacy Policy and Guidance; upgraded the SBA's firewall; completed vulnerability analysis and penetration testing; and it initiated key revisions to SBA's computer incident response policy.

Other FY 2006 accomplishments include:

Enhancements to Web-based Systems — In FY 2006, the SBA increased and improved the information and services provided to small businesses via the Internet, most notably through implementation of EDMIS II, a centralized data collection and reporting system for SBA's Office of Entrepreneurial Development programs. Acknowledging the Internet as a mission essential content source for all SBA programs, the Agency also implemented Stellent's content management for district and regional **www.sba.gov** website pages, developed LAORS (Loan Accounting Online Reports System) and redesigned SBA's web portal GLS (General Login System).

Modernized Data Center — The SBA now has a number of enterprise level systems that operate in a web-based technical environment. To meet customer expectations, these web-based systems must be available 24/7 and they must operate efficiently so that information requests are processed quickly and reliably. To ensure that SBA can meet those expectations, the Agency replaced eight servers in its headquarters data center with newer models offering better performance and more capacity. The replacement equipment will improve system performance and customer experience by ensuring high operational performance and reducing the risk of failure or operational slowdowns.