April 23, 2013

The Honorable Sam Graves
Chair, Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am in receipt of your letter dated April 3, 2013, requesting further information on how the U.S. Small Business Administration (SBA) will conduct operations during sequestration. First, the SBA has focused our efforts on mitigating, to the greatest extent possible, sequestration's impact on the millions of small businesses that benefit from our services each year.

As a result of sequestration, SBA will be making a number of difficult choices. The core objective is to maintain the mission of the agency while implementing the required sequestration reductions. We are confident that our strategies will help limit sequestration's effects; however, given the magnitude of these cuts, there is little doubt that sequestration will have a negative impact on the small businesses that rely on our Agency's programs and services.

Enclosed you will find Information and data responsive to your questions. If you or your staff have any questions, please contact our Office of Congressional and Legislative Affairs at (202) 205-6700.

With warm regards,

Karen G. Mills

Enclosure

A. Guaranteed Loan Programs

1. Expected demand for 7(a) and CDC loans
For FY 2013, SBA projects demand for the 7(a) and CDC loan programs at $16.1 billion and $5.3 billion, respectively. These projections are based on historical performance, planned program changes and current portfolio trends.

2. Procedures for allocating funds between 7(a) and CDC
As your letter implies, the funds for SBA's guaranteed loan programs are fungible, meaning they can be allocated—and when necessary reallocated—between the 7(a) and CDC programs. Each year, SBA's initial allocations of subsidy funding are based on historical trends and projections within each program for the current year. Subsequent adjustments are made to these initial allocations based on actual levels and updated demand projections. While SBA has no plans to reallocate between the CDC and 7(a) programs, SBA will continue to closely monitor the funding levels and take necessary actions accordingly.

3. Plans to cap the size of SBA loans
The SBA does not plan to cap the loan sizes for either the CDC or 7(a) program as a result of sequestration. If actual loan demand exceeds our current projections, SBA is confident that the Agency can properly manage the lending volume in both programs by using other tools, such as application queues, that would not place restrictions on the size of our loans to small businesses.

4. Plans to establish a "priority list"
As you may recall from our efforts in connection with implementation of the American Recovery and Reinvestment Act (ARRA), SBA and its lending partners have experience using a queue system for loan applicants. That system was well received by the industry and the small businesses we served. If loan demand exceeds SBA's lending authority, SBAcould use a queue system similar to the one implemented for ARRA.

5. Expected reprogramming of funds
SBA currently has no plans to reprogram funds into the Business Loan Programs Account during sequestration. As indicated above, if a funding shortfall occurs, SBA will consider all tools at its disposal to manage the volume within the guaranteed loan programs.

B. Other SBA Operations

1. Travel to training events
All planned SBA conferences are focused on staff training specific to SBA's programs and oversight. SBA expects to spend approximately $700,000 on employee travel to these training events in FY 2013—down from about $856,000 last year. As part of SBA's participation in the President's Campaign

to Cut Waste, SBA has implemented stringent travel and conference attendance policies. For example, among other requirements, all travel and conference attendance exceeding $100,000 must be approved in advance by SBA's Deputy Administrator.

2. Travel and costs for the Office of International Trade (OIT)

The total cost of staffing the OIT is projected to be $5.6 million—1.8% of the SBA's total compensation and benefits costs for the year. Under Section 22 of the Small Business Act, as amended by the Small Business Jobs Act of 2010, SBA's OIT is required to, among other things:

(i) aggressively market its trade promotion and trade finance programs;
(ii) promote sales opportunities for small business goods and services abroad;
(iii) encourage greater small business participation in trade fairs, shows, missions and other domestic and overseas export development activities; and
(iv) conduct training programs for small business exporters and lenders.

To carry out these duties, the OIT will fund approximately $110,000 in travel for FY 2013. The vast majority of this funding will be for domestic travel associated with OIT's Export Solutions Group Regional Managers, who are located throughout the country at U.S. Export Assistance Centers. To carry out their mission and that of the OIT generally, these Regional managers must travel periodically within their assigned territories. About $6,800 of the FY 2013 funding will be spent for OIT employees to attend selected international trade shows, where they will provide targeted export finance counseling and training to participating U.S. small businesses.

3. Costs of National Small Business Week (NSBW)

In 2013, NSBW will have a new format to reach more small business owners across the country. Events will be held in Seattle, Dallas, St. Louis and Pittsburgh from June 17 through June 20. The events will consist of speed mentoring sessions, business and federal matchmaking opportunities, guest speakers, educational panels and workshops. On June 21, there will be a one day event in Washington, DC to recognize the accomplishments of small business owners from across the country. As of April 18, we expect the 2013 NSBW to cost approximately $444,000. Of this amount, about $420,000 will be borne by our private partners using SBA's cosponsorship authority, and the balance will be paid with SBA funds.

4. Funding for Regional Innovation Clusters (RICs)

All of SBA's programs and initiatives, including the RICs, are implemented in accordance with our authority, as provided by Congress. RICs assist SBA in achieving its mission of aiding and assisting the interests of small business concerns. The authority and funding for RIC, as well as SBA's other "non-credit programs" (i.e., SBDCs, WBCs, and SCORE), is recognized in the conference report to PL 112-74, which provided $5 million for "Entrepreneurial Development Initiative (Clusters)." H.R.Conf. Rep. 112-331, p. 921 (Dec. 15, 2011). SBA was provided $10 million for the RICs in FY 2010 (H.R. Conf. Rep. 111-366, p. 925-926 (Dec. 8, 2009). That funding was extended in FY 2011 under the Continuing Resolutions.

Under sequestration, funding for the RICs is being reduced by $1.3 million, a much larger percentage reduction (26%) than those made to other non-credit programs like SBDCs, WBCs, and SCORE under sequestration. Further details of SBA's sequestration spending will be included in the forthcoming operating plan, which must be delivered to Congress by April 25, 2013, pursuant to the most recent continuing resolution.

5. Cost of the Tibbetts Awards

The total appropriated cost to the SBA for the presentation of the Roland Tibbetts Awards in FY 2013 is approximately $6,800. The cost for the awards is approximately $1,800. The remaining $5,000 will fund a research contract to review the eligibility of applicant firms.

The SBA has let a contract for the maintainenance of the SBIR.gov website and all associated pages, including the Tibbetts Award webpage. The cost of updating the annual Tibbetts Awards announcement is included in the cost of that contract. Therefore, it is difficult to assign a specific dollar value to the page maintained for the Tibbetts Awards; however, it is thought to be less than $500.