S. HRG. 109–47

THE PRESIDENT'S FY 2006 BUDGET REQUEST FOR THE SMALL BUSINESS ADMINISTRATION

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

FEBRUARY 17, 2005

Printed for the use of the Committee on Small Business and Entrepreneurship

Available via the World Wide Web: http://www.access.gpo/gov/congress/senate

U.S. GOVERNMENT PRINTING OFFICE

21–350 PDF WASHINGTON : 2005

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COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

C O N T E N T S

COMMENTS FOR THE RECORD

THE PRESIDENT'S FISCAL YEAR 2006 BUDGET REQUEST FOR THE SMALL BUSINESS ADMINISTRATION

THURSDAY, FEBRUARY 17, 2005,

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP,
Washington, DC.

The committee met, pursuant to notice, at 10:01 a.m., in room SR–428A, Russell Senate Office Building, the Honorable Olympia J. Snowe, Chair of the Committee, presiding.

Present: Senators Snowe, Coleman, Thune, Kerry, and Pryor.

OPENING STATEMENT OF HON. OLYMPIA J. SNOWE, CHAIR, SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP, AND A UNITED STATES SENATOR FROM MAINE

Chair SNOWE. The hearing will come to order.

Good morning, and I want to welcome everybody to today's hearing on SBA's budget proposal for fiscal year 2006.

I am very pleased to join the Ranking Member, Senator Kerry, in being here today to hear from Administrator Barreto. We want to welcome you, Administrator Barreto. We thank you for your advocacy and leadership on behalf of small businesses throughout America, and we appreciate your willingness to testify here today on SBA's proposed priorities for the coming year.

We will also be hearing from representatives of the small business community, as well, in the second panel.

In his State of the Union speech, President Bush said we live in a country where dreams are born. Nowhere is that more evident than in America's 25 million small businesses, entrepreneurs who have certainly taken risks and persevered through difficult times to fuel the engines of America's economy. Small business has propelled our Nation's economic growth, producing over 50 percent of the GDP and creating three-quarters of all new jobs in America.

The Small Business Administration has long been a critical partner in that success, with lending and technical assistance programs that have helped to create or retain nearly 4.5 million jobs since 1999. That number continues to grow each year. I think that is an illustration of the success of many of the small business programs that I am sure you are all familiar with. But I think that that does underscore the value of the Small Business Administration programs.

Against that backdrop of achievement, the SBA's budget regrettably has been drastically reduced by 36 percent over the past 5 years, which is illustrated again in this second chart, just to show you the magnitude of the decline over the last 5 years with respect to appropriations.

When you consider that SBA's budget represents less 3/100ths of a percent of the total Federal budget, there should be no doubt the time has come to end these unwarranted cuts and instead invest in a strong future of economic vitality.

As Chair of this Committee for the second consecutive year, I am deeply concerned about the SBA's budget. The Administration's proposed $592 million represents a 13 percent decrease from the Agency's 2005 request and a 26 percent decrease from the 2004 request.

The SBA has a clear record of success, and yet inexplicably it is juxtaposed with endless budget cuts. This morning I will be listening very carefully and intently in analyzing the SBA's request by both the Administrator and the subsequent witnesses on the second panel. We will have an obligation to not only maintain, but to strengthen the SBA's proven core loan and assistance program, again illustrated in the third chart—we are into charts this morning and the SBA's lending program. But again, it demonstrates the value of these programs and the success with the number of loans that have been issued in the last several years.

The SBA's financing program, which is a crucial source of financing for small businesses, has never been more in demand with both the 7(a) and the 504 programs delivering measurable results. The numbers from fiscal year 2004 spell out that indisputable success of the 7(a) program, providing over $13.5 billion in loans to help small businesses to help create 132,603 new jobs, overall retaining 538,658 jobs. As you can see over here on this chart in the different programs with 504, 7(a), the SBIC, the Microloan surety, the comparisons. But I think it illustrates the point.

The 504 program, I hope everybody can see it, $4 billion to support the creation of 86,847 jobs all combined, to retain jobs as well as those created, and you see 152,287 jobs.

So again I think it is an example of the extent of these programs and why we ought to be building on and strengthening these programs, rather than undercutting them.

In addition, the SBIC program invested more than $2.8 billion in small businesses in 2004, creating over 78,000 new jobs. I am hopeful that we can successfully restructure the SBIC program this year to ensure a strong track record continues well into the future.

For the next generation of small businesses, it is also critical that the SBA's financing reaches out to aspiring entrepreneurs. And that is why, in addition to helping established small businesses, Congress wisely determined that the SBA should aid new and fledgling small businesses with the Microloan program. When this program was zeroed out last year I, and several of my colleagues, worked hard and successfully to restore $17 million in the appropriations for this program in the 2005 budget. Once again, I strongly disagree with the Administration's ill-considered request to eliminate the Microloan program.

What we are talking about is a small and efficient, cost-effective program that stacks up very well on a jobs per dollar comparison to larger SBA programs. Consider, for example, that in 2004, according to the SBA, the 7(a) program created and retained one job for every $23,600 in loans. The 504 program created and retained one job for every $26,043 in loans. And the Microloan program created or retained one job for every $3,608 in loans.

In my own State of Maine, Microloans actually created and retained one job for every $3,700 in loans, according to SBA's numbers. The point is a little seed money goes a long way when the hunger for economic opportunity is high.

So I believe it is clear that we should be supporting programs that foster job growth, especially in States like Maine, rural States that have been hard hit by manufacturing job losses and require that additional economic stimulus.

Moving to contracting, I commend President Bush and the SBA for proposing an increase in the Government contracting and business development budget by over $4 million. But with regard to the new PCR proposals, I am concerned that with the proposed hiring of only six new procurement center representatives the Agency's ePCR initiative will not adequately police contract bundling services.

This is especially significant because the PCRs are the SBA's competition Ambassadors, the sole watchdogs for the interest of small contractors.

Moreover, many SBA procurement initiatives such as the 8(a) and the 7(j) programs appear to suffer from performance and management deficiencies. We have seen a consistent failure to achieve HUBZone statutory goals and the SBA's proposal to fold the HUBZone budget into the SBA's general budget only make matters worse.

In addition, the SBA is proposing for a second year to zero out two technology grant programs, Rural Outreach and the Federal and State Partnership. These programs leverage the infrastructure of State technology agencies and non-profit research incubators to increase the geographic diversity and competitiveness of small hi-tech firms for States such as Maine, which have comparatively lower participation in Federal R&D efforts.

At a time when business magazines are reporting that China, our key competitor, is aggressively expanding its technological base, ending this private/public partnership seems exactly like a move in the wrong direction.

I am similarly dismayed with the proposed funding freeze for SBA's resource partners, despite the fact that these programs surpass the SBA's goals, assisting almost 1.5 million startup and existing small businesses. In fact, the Small Business Development Center program alone served over 725,000 clients and helped create or retain over 168,000 jobs in fiscal year 2003. Similarly, the SBA's Women Business Center programs, with its unique training and counseling, helped to create and retain over 6,500 jobs in fiscal year 2003.

So clearly, results from these funding freezes are lost opportunities for entrepreneurs and would-be employees.

The SBA freezes also extend to the veterans business program. I believe that decision is not only unwise, but also uniquely ill-timed, as over 193,000 Guard and Reservists have been deployed since September 2001. An estimated 37 percent of those servicemembers work for small businesses or are self-employed, and many of them are accepting risk and financial hardships in order to answer the call to duty.

So I think it is essential that the veterans business program is adequately funded with the necessary resources to offer targeted assistance to veteran-owned small businesses.

With that, Mr. Administrator, I look forward to hearing your testimony, and from those who will be participating in the second panel to offer their views and perspectives, because clearly we have to do everything that we can to strengthen and maintain these very successful programs.

The point of my opening statement here this morning is to demonstrate and reinforce the fact that these programs have worked exceptionally well and we need to do more to strengthen and buildupon the resiliency and the outcomes that they have been able to achieve for so little money, that would help so many parts of America that are not experiencing the kind of economic growth that some parts of the country are enjoying. And certainly that is true of rural America.

So with that, I turn to the Ranking Member, Senator Kerry.

STATEMENT OF HON. JOHN F. KERRY, A UNITED STATES SENATOR FROM MASSACHUSETTS

Senator KERRY. Thank you very much, Madame Chair.

First of all, let me say that I think that is a very important statement that you just made. I think it is a very fair, even gentle, assessment of where we find ourselves. And I welcome the non-partisan and I think thoughtful assessments on what the small business interests are and where we ought to be going. I think the Chair has accurately put her finger on a number of different concerns and I share many of those concerns and I will talk about them in a minute.

First, if I may as a point of personal privilege, I would like to just take a moment to say to all of the Members of the Committee that we are losing for retirement one of the really superb staff members in the U.S. Senate.

Patty Forbes has worked at this Committee for a long period of time. She has worked in the SBA. I cannot think of many people who have contributed as selflessly, as competently and in as wonderfully a bipartisan fashion as she has.

I think Senators on both sides of the aisle have grown to respect her expertise, her commitment to small business, her unfailing devotion to duty, if you will, the way in which she has always welcomed people from every walk of life on every issue and tried to find the compromise, tried to find the middle ground to make things work.

I think this Committee has been blessed to have her. And I just want to say, for my own part, how grateful I am for her service. I think we all thank her.

[Applause.]

Senator KERRY. Madame Chair, I would like to submit letters and my full testimony for the record, as well as some testimony from other folks.

Chair SNOWE. Without objection, so ordered.

Senator KERRY. Thank you very much.

It is hard to know where exactly to begin. I know that an Administrator is put in a position of carrying out the will of an administration. There are budget chiefs and the President himself and others who will dictate what will happen. So I am going to try to recognize that as I direct comments at you, Mr. Administrator, and at the Administration. I do not want to slay the messenger, so to speak.

But I have to say that this budget is just really disturbing. Just look at the fundamentals that the Chair has put up there. I have spent 22 years here now. I spent a lot of those years on this Committee. Our job is to try to help small business. Our job is to try to create jobs in America. This is not a partisan Committee. This is probably one of the least—this and the Intelligence Committee—are the two least partisan committees in the Senate. We exist for the purpose of helping 98 percent of the businesses in America to be able to create jobs and to grow America. There are some time-honored, proven ways in which we do that.

The success stories of lending programs by the SBA, those companies that have been successful, have themselves repaid the Nation in taxes and salaries paid many times more than the budget of the SBA. There is no debit here that has to be made up somehow.

And yet you are cutting. You are undoing and destroying programs that work. You are destroying them, the morale of the Agency as well. You may assert otherwise, but we know otherwise.

The fact is, in the small business community, people are really struggling to be able to make things work.

The Administration, in 4 years and a bit now, has yet to create one new net job in America. One new net job. And it is small business that creates those jobs.

I would think you guys would be trying to find ways to grab whatever you can and go out there and excite innovation and incubation in small business.

I know you come in here and you are going to say to us, as you did in the House and elsewhere, that you have this rosy scenario. You are doing more with less. You are saving taxpayer money, zero funding for loans and so forth. But the fact is you have shifted costs to borrowers and lenders through higher fees. And those higher fees put loans out of reach for the neediest small business borrowers in America. A lot of us in this room understand that the SBA is now taking credit for things that Congress did, that rescued the SBA, like the 7(a) running out of money and bringing people together. There is a long story here of biting off your nose to spite your face.

The SBA's plan to save money by zero funding its largest loan programs, you have admitted two key facts about the plan. No. 1, it only works because you have shifted cost to the borrowers and lenders through the higher fees. And second, we are going to have people who testify and you can talk to small business people, and they will tell you how much harder it is to get that kind of lending, which is what this is for.

I do not believe the proposed program levels are adequate to meet the likely demand for these loans. And that demand, in my judgment, is essential to responding to America's need to create jobs here in this country and to incubate.

In addition, I disagree with the proposals to eliminate the Microloan program and the SBA participating securities program. Each of them serve a financing gap in the marketplace and that is why we are here. I know there are some who ideologically resist the notion that the Government ought to do anything with respect to marketplace. But history has proven over 220-plus years that intervention is often necessary. We have the Federal Reserve. We have the various lending programs. We have a commerce clause. We have certain rules that we have to play by and there are certain regulations and interventions that are necessary to leverage behavior.

Those particular financing mechanisms provide for a gap in the marketplace, which is why this Committee, in bipartisan, non-ideological fashion, helped put them there in the first place. We all know that traditional lending institutions and venture capitalists often look for the fastest return on investment or the safest return on investment or a combination of the two and that does not always work for some kind of options.

When I was Lieutenant Governor, I sat on the board of something called the Massachusetts Technology Development Corporation. We actually funded the companies that fell through the gaps. The minute they began to take off and turn successful, we got the heck out of it because we did not want the Government involved. But we put big companies on the big board in New York that otherwise would not have gotten there. Jobs were created and people became successful and it more than paid for itself. Why we turn away from these obvious success stories is absolutely beyond me. And I think the Administration's budget is shortsighted with respect to the economy.

In the Microloan program, in all the years since its inception in 1992, there have been only one or two defaults. It creates jobs at a bargain rate, less than $4,000 a job versus the $33,000 of the SBA's other programs. And it meets the SBA's goals of more startups. Why are we not building it instead of reducing it?

The 7(a) Community Express program, while a good program for more established small businesses, is not a substitute for the Microloan program. Your budget for this year, just like last year, continues your assault on entrepreneurial development programs that help low-income, minority, home-based, rural and women entrepreneurs.

I oppose the cuts to these programs. I am particularly concerned about what you are doing to the Women's Business Center and PRIME programs. The PRIME program has no substitute. You have praised it, Mr. Administrator. You have talked about how important it is. I could quote you here. "It has no substitute and it helps a sector of our economy that needs it the most."

With regard to the Women's Business Center program, you have repeatedly said that you are not going to support sustainability grants which allow the most experienced and productive centers to continue receiving matching funding. That program has enjoyed strong bipartisan and bicameral support, including Chairwoman Snowe, Senator Talent when he chaired the House Small Business Committee, and most of the Members of this Committee. But you are going in the opposite direction.

Repeated requests from the women's business community and strong support from many of us in Congress have kept this program going. But last year's extension, which passed as part of the Appropriations Bill, only funded the program through fiscal year 2005. And without a new authorization about 60 percent of the Women's Business Centers are going to be forced to close. Is that a good idea?

Madame Chairwoman, I am deeply concerned with the Administration's ongoing strategy that limits transparency and reduces the oversight authority of this Committee by removing program funding from line items in the budget and incorporating them into the operating budgets of managing offices, which given the experience we have been through, is a way of saying we are in for trouble down the road.

I am especially concerned with the elimination of the line item for advocacy research and the lack of independence that would result from such a transfer of budget authority.

So I thank you, Madame Chairwoman, for having this hearing.

I might add, on the association health plans, here we come again. No bigger issue did I run into across the country than health care. That is America's crisis, not Social Security. Social Security is a problem. It is a problem that we can deal with, and we will deal with it, just as we have the past.

The crisis is health care. And the President and the Small Business Administration ought to be leading on it. Of all of the people in the world to be leading on something, small business. It is small business people who cannot provide their care. They are the ones being crushed under the costs of health care.

And the Congressional Budget Office has said that the association health plans will raise the cost of doing business for four out of five of the premiums that are paid. That is the CBO. It is nonpartisan. It is just an assessment of what is going to happen. Four out of five small business workers and their families' premiums are likely to go up under that plan.

We have a plan where premiums could go down. With a reinsurance plan, you could actually stopgap costs for all businesses in America. You could lower the premiums for everyone in America and begin to get a breathing spell and reduce costs in the country. But you have to make a different set of choices than this Administration is willing to make.

So I am disappointed by the budget. I know that is not going to come as a surprise to you, but it is not a partisan disappointment. It is not prompted by anything to do with ideology. It is practical. It is based on sound experience of this Committee. It is based on what we know works. It is based on good business practices. And most importantly, it is based on the pleas and needs of small business people all across this country, whether they are Republicans, Independents or Democrats.

I think your budget is out of touch with them and with the needs of the country, and I regret that.

So I look forward to the hearing and we will see what we can do to try to cobble something together that makes sense.

Chair SNOWE. I thank you, Senator Kerry.

Senator Pryor.

STATEMENT OF HON. MARK PRYOR, A UNITED STATES SENATOR FROM ARKANSAS

Senator PRYOR. Thank you, Madame Chair, and thanks for having this hearing today. You and Senator Kerry both have shown great leadership on this issue in the past and continue to do so. I look forward to hearing from our witnesses. Thank you.

Chair SNOWE. You have heard us for 20 minutes. Begin.

STATEMENT OF HON. HECTOR V. BARRETO, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION

Administrator BARRETO. Thank you, Chair Snowe and Senator Kerry and Members of the Committee. Thank you for inviting me here today to discuss the President's budget request for the SBA for fiscal year 2006.

The past year was not without its challenges for SBA. We faced several critical issues and we worked together to reach agreements that benefited both America's small businesses and America's taxpayers. When 7(a) loan demand exceeded its budget authority, SBA and this Committee were able to come together with our lending industry partners to provide an additional $3 billion in lending authority for the 7(a) program. This allowed the Agency to lift the loan caps and guarantee a record $12.7 billion in small business loans in fiscal year 2004.

At the beginning of fiscal year 2005, SBA began operating the 7(a) program at a zero subsidy rate. This trial period showed that a zero subsidy would not hinder access or delivery of the 7(a) program. As a result, again the SBA and the Committee and the lending industry came together to craft legislation that ensured long-term stability in the program.

Since October the 1st, SBA has guaranteed $4.7 billion in loans and our lending partners have showed renewed support for the program. In addition, we are making more loans than ever to minorities, women and veterans.

Last, SBA's programs under the Small Business Act had not been reauthorized in over 4 years and the Agency and this Committee seemed to be deadlocked in the negotiating process. However, persistence and diligence in pursuit to this goal produced a compromise 2-year SBA reauthorization, which the 108th Congress approved. This compromise was part of the fiscal year 2005 Omnibus Appropriations Act and I thank you for your support of SBA's efforts to become more efficient. This legislation allows the Agency to better serve small businesses at less cost.

Our fiscal year 2006 budget submission reflects a continued commitment to that goal. Last year I stressed to you that SBA's goal was to do more with less. I know that in Washington, DC. it is difficult to imagine supporting a program without continually increasing its budget, but SBA has proven it can be done. Since I became

SBA Administrator in 2001, the Agency's annual appropriation has decreased, yet SBA's programs have reached more and more American entrepreneurs year after year.

Last year was a great example of this kind of success at the SBA. The Agency provided $21.3 billion in loan guarantees and related financing to nearly 88,000 small businesses. SBA's core infrastructure of technical assistance programs, our SBDCs, our SCORE, our Women Business Centers and district offices provided their services to record numbers of small businesses in fiscal year 2004.

SBA's Entrepreneurial Development Programs provide expertise and guidance to entrepreneurs who have the drive and the idea, but need a little help putting all of that together in a working business plan. SBA's continued support of the Federal Government's statutory commitment to provide a fair share of contracting dollars to small businesses. Small businesses received a record number of Federal contracts in fiscal year 2003, $65.5 billion, and exceeded the 23 percent Government-wide goal.

SBA has also been innovative in creating contracting opportunities for small businesses. For example, the Business Matchmaking Program has given small businesses around the Nation a better opportunity to obtain Government and private contracts by introducing them to procurement officials who otherwise would be very difficult to meet. This allows small firms to learn about and bid on procurement opportunities in their areas of expertise. As a result, $29 million in Federal and private contracts have been awarded so far.

SBA has been active in other areas of contracting, as well. I am proud of the hard work done to implement the provisions of PL 108–183 in record time, providing contracting officers with a powerful tool to award contracts to those who have given so much to our country, service disabled veterans. In December, the Agency implemented a new policy to more accurately monitor contract awards when a small business is purchased or merged with a larger business. The new policy requires a business to recertify itself as small when Federal contracts are transferred to it, in order to be continued to be counted as a small business contract.

For years to come, victims of the worst hurricane season on record will remember how SBA helped them get back on their feet. During fiscal year 2004, the SBA's Disaster Program provided more than $884 million in low-interest loans to over 28,000 homeowners and businesses. The supplemental appropriations allowed SBA to increase these numbers to over 100,000 loans for up to $4 billion. This will enable the local economies to recover as quickly as possible.

President Bush understands the vital role that America's small business play in creating opportunities. He also recognizes that small business generate two-thirds of all of the new private-sector jobs. The President's plan for economic growth and job creation, along with his small business agenda, has been successful in creating an environment in which entrepreneurship can flourish.

Health care continues to be one of the largest burdens our small businesses must bear. Time and again, as I meet with the entrepreneurs around the Nation, they talk to me about the cost of health insurance. And it is only getting worse. We will continue to support the use of health savings accounts and urge Congress to pass association health plans.

We also plan to make the President's tax proposals permanent, which will help small businesses and their employees keep more of what they earn and reinvest that money in their families and their businesses. Recognizing these successes, we look forward to the future with renewed dedication to serving America's small businesses in a financially responsible manner.

Now I would like to lay out the specifics of fiscal year 2006 budget request. SBA's total request is for $592.9 million. This request provides for a strong active SBA that can effectively and efficiently meet the demands of its customers, America's entrepreneurs, while minimizing the cost to the taxpayers. Through improved management and program reforms, SBA will better serve small businesses.

SBA requests $16.5 billion in lending authority for its 7(a) loan program. This record amount of lending authority will provide the loans small businesses need in a timely manner and without disruption due to the stability of the zero subsidy rate policy. This request will also give SBA the authority to provide $5.5 billion in loans through the 504 Certified Development Company Program, also at no cost to the taxpayers.

SBA continues to support venture capital for small businesses. SBA requests $3 billion in authority for the SBIC Debenture Program. For 50 years this program has provided venture capital for success stories such as Nike, Intel, Calloway Golf, and many others. However, we are not proposing to reinstate the Participating Securities Program at this time. In 10 years of operations, this program has resulted in reestimated losses of $2.7 billion to taxpayers. And that kind of result is unacceptable.

Through more flexible budget structure, SBA is seeking increased efficiency and quality of services. The request proposes that the Agency work through its Nationwide infrastructure of Women Business Centers, veterans outreach centers, SCORE chapters, Small Business Development Centers and district offices.

This budget also includes continued funding for the Agency's Disaster Program. As you are aware, the SBA is a major part of the Government's mechanism to help disaster victims get back on their feet.

Some of the heaviest burdens borne by small businesses in America are the result of unnecessary Federal regulation and red tape. That is why I am pleased that the SBA's budget includes $9.1 million for the Office of Advocacy. This funding will allow advocacy to fulfill its mission.

In his February 2 State of the Union address, the President underscored the need to restrain spending in order to sustain our economic prosperity. As part of this restraint, it is important that total discretionary and non-security spending be held to levels proposed in the fiscal year 2006 budget.

The budget savings and reforms in the budget are important components of achieving the President's goal of cutting the budget deficit in half by 2009 and we urge the Congress to support these reforms. The fiscal year 2006 budget includes more than 150 reductions, reforms and terminations in non-defense discretionary programs of which two affect SBA. These are the Microloan and SBIC Participating Securities Programs.

SBA must be forward thinking. We must anticipate changes in the marketplace and adjust our programs based on the realities of today's small business environment. SBA's fiscal year 2006 request is good for America's small businesses and taxpayers and I ask for your support for our fiscal year 2006 budget request.

Thank you again for the opportunity to appear here today. I am happy to answer any of your questions.

[The prepared statement of Administrator Barreto follows:]

PREPARED STATEMENT OF HECTOR V. BARRETO, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION

Madam Chair, Ranking Member Kerry and Members of the Committee, thank you for inviting me here today to discuss the President's Budget Request for the U.S. Small Business Administration (SBA) for Fiscal Year (FY) 2006.

As the Committee is aware, the past year was not without its share of challenges for the SBA. However, I am proud to say that last year was also one of great success for both the Administration and the Senate Small Business and Entrepreneurship Committee. We were faced with several critical issues, but we were never able to work together and reach agreement in ways that proved beneficial to both America's small businesses and America's taxpayers.

In FY 2004, when the 7(a) loan program's demand exceeded its budget authority, the SRA and the Committee were able to come together, and with the assistance of our partners in the lending industry, to provide an additional $3 billion in lending for the 7(a) program, at no additional expense to the taxpayers. This allowed the Agency to lift the loan caps and operate the program at full capacity for the remainder of FY 2004. As a result, the Agency guaranteed a record $12.7 billion in small business loans in FY 2004.

At the beginning of Fiscal Year 2005, under the continuing resolution, the SBA began operating the 7(a) program at a zero subsidy rate. This "trial period" showed that a zero subsidy rate would hinder access to and delivery of the 7(a) program, As a result, the SBA, the Committee, and the lending industry came together to craft legislation that allowed the program to operate without appropriations from Congress and ensure long-term stability in the program.

This change significantly reduced the potential for future progam disruptions and uncertainties, and allowed the Agency to reduce its budgetary needs while continuing to service America's small businesses.

I know some have expressed concern that the resumption of the 2002 fee levels would harm small businesses. However, since October 1, SBA has guaranteed over $4.4 billion in loans, an increase of over 11 percent over last year, and our leading partners have shown renewed support for the program. In addition, we are making more loans than ever to minorities, women and veterans.

At this time last year, the SBA's programs under the Small Business Act hadn't been reauthorized in over 4 years, and the Agency and the Committee seemed to be deadlocked in the negotiating process. However, persistence and deligence in pursuit of this goal of reauthorization finally produced a compromise in the form of a two-year SBA reauthorization that passed at the end of the 108th Congress.

Chair Snowe, I would like to compliment you and your staff on ensuring that this legislative compromise was included as part of the FY 2005 Omnibus Appropriations Act and for your support of SBA's efforts to become more efficient. This legislation allows the Agency to better serve more small businesses at less cost. Our FY 2006 budget submission reflects a continued commitment to that goal. Small business customeers are taxpayers and understand the need to cut unnecessary costs and keep up with an ever-changing marketplace.

Last year, I stressed to you that SBA's goal was to do more with less. I know that in Washington, DC, it is difficult to imagine strongly supporting a program without continually increasing its budget, but SBA has proven that it can be done.

Since I became SBA Administrator in 2001, the Agency's annual appropriation has continued to decrease, yet SBA's programs have reached more and more American entrepreneuers year after year.

Last year was a great example of this kind of success at the SBA. The Agency provided $21.3 billion in loan guarantees and related financing for approximately 87,800 small businesses in FY 2004; these being record levels.

Out of that $21.3 billion, nearly one-third went to women-owned and minority-owned businesses, which is more than any prior year; over $500 million went to African Americans; approximately $2.8 billion went to women; over $1.2 billion went to Hispanics; and over $115 million went to the Native American community. These figures represent the Administration's continued commitment to ensuring that the SBA's loan programs truly serve those small businesses that would otherwise have a difficult time accessing capital from the lending world. I am proud of the successes documents by these efforts.

Our administrative transformation efforts have also produced similar results. As this Committee knows, the Agency has been going through a transformation process designed to realign some of its dated infrastructure to meet the changing face of the 21st century business world. The needs of the SBA's customers remain paramount, and modernizing and realigning the Agency's human capital resources, operations, and organizational structure to match those needs is crucial to the Agency's continued relevance. Last year, the SBA began consolidating administrative servicing functions, allowing field office staff to work more closely with their clients in the small business community. The Agency's field offices are using technology, outreach, marketing, and customer relationship management to better meet small business needs. Through these modernization efforts, more SBA employees will be in more locations, providing direct assistance to the small business community at a lower cost.

The SBA has also been effective in streamlining processes on the loan finance management side of the organization. Currently, over half of SBA's 7(a) loans are made through SBAExpress, which is processed electronically in a 36-hour timeframe. Centralization has reduced the 7(a) program guarantee and purchase liquidations timeline to an average of less than 45 days. The 504 program reduced loan application processing time to just two days, five times faster than the prior national average of ten business days. These dramatic improvements directly affect the SBA's partner lenders, and ultimately, the Agency's customers, America's small business owners.

SBA's core infracture of technical assistance programs—SBCDs, SCORE, WBCs, and district offices—provided their services to record numbers of small businesses in FY 2004. SBA's Entrepreneurial Development programs provide much-needed expertise and guidance to those entrepreneurs who have the drive and the idea, but may need a little help putting all of that into a working business plan.

The SBA also continued its mission to support the Administration in meeting its statutory commitment to provide a fair share of contracting dollars to small businesses. Small businesses received a record number of Federal contract dollars in FY 2003—$65.5 billion—and exceeded the 23 percent government-wide goal. I am also proud to say the Federal contracting dollars increased for women-owned businesses, 8(a), SDB, HUBZone and Service-disabled veteran-owned firms. In FY 2004, the SBA provided procurement assistance to over 37,000 small businesses.

The SBA has also been innovative in creating additional contracting opportunities for small businesses. For example, the Business Matchmaking program has given small businesses around the Nation a better opportunity to obtain government and private contracts by introducing them to procurement officials who otherwise would be very difficult to meet. The program's goal is stimulate jobs and growth for small businesses by taking advantage of opportunities that are normally confined to distinct geographical areas such as the Washington, DC area or a city where a major corporation is located. Since the program started 2 years ago, 23,000 one-on-one appointments between small business owners the Federal and corporate procurement officials have been conducted. The program has allowed small firms to learn about and bid on procurement opportunities in their areas of expertise. As a result, $29 million in Federal and private contracts have been awarded. More than 50 percent of the small businesses that have received contracts through this initiative are women-owned or minority-owned businesses.

SBA has been proactive in other areas of contracting as well. I am proud of the hard work done by my staff last year to implement the provisions of P.L. 108–183 in record time, providing contracting officers with a powerful tool to award contracts to those who have given so much to our country; service-disabled veterans.

Additionally, the Agency recently published a rule clarifying the responsibilities of prime contractors and giving contracting officers a tool to ensure that small business subcontractors are treated fairly when doing work on Federal contracts—an issue plaguing many small businesses. In December, the Agency also implemented a new policy that enables the Federal Government to more accurately monitor contract dollars awarded to small business concerns that are subsequently purchased by large business concerns. The new policy requires a business to recertify itself as small when a change-of-name or novation agreement has been executed if the contract is to continue being counted as a small business contract.

In the past year, the SBA has moved to a completely automated electronic application process for both the 8(a) and Small Disadvantaged Business (SDB) Programs. As a result, the average time to process an 8(a) application has fallen from over 100 days to 45 days, and for SDB, the drop is from 110 days to 40 days. Consequently, time and government resources are being used more efficiently, and at the same time, better customer service is being given to small businesses.

While I am always more than pleased to talk about the active role that the Agency plays in the small business world, I really couldn't be more proud of the humanitarian assistance provided by SBA's Office of Disaster Assistance.

For years to come, people will remember the tremendous work the SBA did in 2004 to help disaster victims recover from the worst hurricane season on record. During FY 2004, the SBA Disaster Assistance program approved low-interest loans to over 28,500 homeowners and businesses grossing over $884 million. The supplemental appropriations allow the Agency to increase these numbers to over 100,000 loans for up to $4 billion. The direct public benefit of these SBA loans is that the businesses and local economies in disaster areas will be able to recover much more quickly than would have otherwise.

While we can enjoy the successes of the last year, we must continue to look towards the future with renewed dedication to serving America's small businesses in a financially responsible manner. In fact, the disaster Assistance program has begun its transformation to electronic processing, simplifying the process for disaster victims and providing them with faster responses while reducing costs to administer the program.

President Bush understands the vital role that America's small businesses play in creating opportunities. He also recognizes that following times of economic downturn, small businesses play a leading role in economic recovery, and that it is small businesses that generate approximately two-thirds of all new private sector jobs. The President's plan for economic growth and job creation, along with his Small Business Agenda, has been successful in creating an environment in which entrepreneurship can flourish.

Health care continues to be one of the largest burdens our small businesses must bear. Time and again, as I meet with entrepreneurs around the Nation, they talk to me about the cost of health insurance, and it is only getting worse. We also plan to make the President's tax proposals permanent to help small businesses and their employees keep more of what they earn to re-invest that money in their families and their businesses.

Finally, we want to help the President repair the Social Security system. Some people have claimed that the system is not in need of repair, that the crisis is fifty years away, but I believe it is our responsibility to those in their teens and twenties now to fix the program for their future rather than waiting until the problem becomes acute and unmanageable. I also believe that acting now is the best and fairest way to craft a solution that will not result in unfair costs on small business employers and employees or benefits cuts to those who have paid into the system in good faith. It is time for us to take the 800-pound gorilla out of the picture and remove its unwelcome presence from the plans and futures of small business owners and their employees who are paying the taxes that feed it.

Now, I'd like to lay out the specifics of our FY 2006 budget request. The SBA's total budget request is $592.9 million. This budget request provides for a strong, active SBA that can effectively and efficiently meet the demands of its customers, America's small business entrepreneurs, while minimizing the cost to the American taxpayer. Through improved management and program reforms, the SBA will better serve America's small businesses.

The SBA requests $16.5 billion in lending authority for its 7(a) loan program—a $500 million increase over the enacted level for FY 2005 and almost a 25 percent increase over FY 2004 levels. The 7(a) subsidy rate for FY 2006 remains at zero, meaning the 7(a) program can guarantee $16.5 billion in small business loans without requiring a taxpayer subsidy.

This Budget Request will give SBA the authority to provide $5.5 billion in loans—also a $500 million increase over the FY 2005 enacted level—through its 504 Certified Development Company (CDC) program with no cost to the taxpayers. The 504 program, which was established to increase small businesses' access to real estate and other long-term fixed asset financing, continues to have job creation as an important program goal. The SBA is continuing to take steps to increase small businesses' access to 504 loans by increasing competition among CDCs and streamlining the application process.

SBA is asking for $3 billion in debenture authority for the Small Business Investment Company (SBIC) program. This program has continued to operate with expectations, providing benefits to recipient firms and with financial projections. The Administration's budget does not propose reinstating the SBIC Participating Securities program in 2006. In ten years of operations this program has resulted in re-estimated losses of $2.7 billion, $1.7 billion of which are realized cash losses.

I am continuing my advocacy for greated efficiency and more and better quality of services to small businesses by consolidating delivery of services to small businesses through the Agency's core non-credit programs. As we discussed last year, SBA does not need restrictive line-items placed in its budget in order for the Agency to reach more small businesses.

The HUBZone program is an excellent example of this. In FY 2004 and FY 2005, Congress mandated that the SBA spend $2 million on the HUBZone program. Congress expanded access to this program in the recent SBA reauthorization bill. While SBA is not asking for a special line item, the SBA fully intends to support this program from within our Salaries and Expenses account. As you can see from the Agency's FY 2006 budget, SBA plans to provide $7.3 million in support for the HUBZone program, providing resources that keep the program strong without hampering our ability to meet challenges and serve all of our customers' needs.

Further, SBA is working to enhance the HUBZone program and its other government contracting programs through monitoring and assessing the effectiveness in reaching their target audience. Results of this analysis will help SBA better use its resources in reaching these businesses. Through the Business Matchmaking Initiative, SBA will put more small businesses in touch with procurement officers at all levels of government and those at-large businesses. The one-on-one meetings facilitated through these events provide small business owners with an opportunity to speak directly with the decisionmakers.

SBA will also be working more closely with other Federal agencies, ensuring that their contracting practices maximize opportunities for small businesses while still providing a good deal for the taxpayer. Through EPCR and the ESRS systems, the SBA will have more tools to monitor prime and subcontracts to ensure small businesses are given adequate opportunities to contract with the Federal Government.

The SBA also believes it can provide a full range of technical assistance more effectively by using its core national delivery programs. The Budget Request proposes that the Agency work through its primary infrastructure of 104 Women's Business Centers, 4 Veterans Outreach Centers, 389 SCORE chapters, 1163 SBDCs, and 68 district offices. They can reach more customers and offer higher levels of service to targeted constituencies and, by eliminating the duplication and bureaucracy that is inevitably created by a large number of smaller programs, they can do it far more effectively.

The Budget Request also includes continues funding for the Agency's Disaster Loan Program. The SBA works very closely with the Federal Emergency Management Agency to assist those small businesses and individuals directly affected by disasters such as tornadoes, floods and hurricanes. As you are aware, the SBA is a major part of the government's mechanism to help disaster victims get back on their feet.

As the Committee is well aware, some of the heaviest burdens borne by small businesses in America are the result of unnecessary Federal regulation and red tape. That is why I am pleased that SBA's budget includes $9.1 million for the Office of Advocacy. This funding will allow Advocacy to fully staff its regional operations; to continue training Federal agencies on how to comply with the Regulatory Flexibility Act; and to research, document, and report to Congress on small business matters.

In FY 2006, the Office of Advocacy expects to same small business $5.6 billion in potential regulatory costs. Madam Chair, that is a substantial amount of savings for America's entrepreneurs.

Another crucial area where the SBA continues to make progress is in lender oversight. Since the Loan and Lender Monitoring Systems (L/LMS) became operational in 2003, it has provided the SBA and the Federal Government with an exceptional level of oversight of SBA's guaranteed-loan program operations. L/LMS is a risk-based approach to oversight that provides the Agency with greater insight into SBA's lenders. It is more streamlined and efficient, allowing us to better deploy our resources to those areas where the SBA has the greatest exposure while being less intrusive to the lenders.

Specifically, L/LMS has improved SBA's lender oversight by directly increasing our loan portfolio and lender monitoring capability. The result is SBA's first database confining future credit risk analysis with past performance. L/LMS also enables the SBA to use historical business loan level data when assessing risk levels.

The impact of L/LMS has been profound. For example, in previous years, the Kansas City Review Branch and District Offices reviewed most of the SBA's lenders. Preferred 7(a) lenders were reviewed onsite every year and other lenders were reviewed once every three years. L/LMS now provides non-disruptive off-site monitoring capabilities that consider both the performance and credit risk of every loan the lender makes and funds.

The SBA is committed to continuously reassessing and improving the potential impact of L/LMS for the Agency and its customers. We are constantly evaluating new ways in which we can improve our own operations to meet the full potential of L/LMS.

All of us at the SBA are quite proud of the Agency's legacy of achievement. Many of today's most successful businesses received SBA assistance in their formative stages. Who knows which of tomorrow's industry leaders are today receiving their 7(a) or 504 loans, their Government contracting opportunities, or their counseling through the SBA's programs and services?

However, we at the SBA cannot rest on our laurels. We must be forward-thinking, anticipate changes in the marketplace, and adjust our programs based on the realities of today's small business environment.

The SBA's FY 2006 request is good for America's small businesses and American taxpayers. If offers an opportunity for us to work together with our Congressional partners to ensure that the SBA continues to assist small businesses. We ask for your support for our Budget Request. Thank you for the opportunity to appear today. I am happy to answer your questions.

Chair SNOWE. Thank you, Administrator Barreto.

Before we turn to questions, I am going to recognize Senator Talent from Missouri. He is not a member of this Committee, but he has been a longtime advocate for small business and previously served in the House as Chair of the Small Business Committee.

So I certainly welcome his presence here today and, most importantly, his testimony and his input.

Senator Talent.

STATEMENT OF HON. JAMES M. TALENT, A UNITED STATES SENATOR FROM MISSOURI

Senator TALENT. I appreciate that very much. I want to thank the Chair and the Ranking Member, first of all, for letting me testify and then sandwiching me in after the Administrator. I appreciate the Administrator's indulgence before he takes questions.

I wanted to testify just very briefly, Madame Chair, because I feel so strongly about the importance of sustaining the SBA's Participating Security SBIC Program. It is, as the Chair knows and the Ranking Member knows, it is the only equity investment program the Government sponsors in the SBA. The other programs are all loan programs, good programs, but now ones that directly provide capital.

Anybody who talks to small business a lot knows that the shortage of investment capital, either to get started or to grow, is one of the big problems that they confront.

We know about this program in Missouri. Of $8.9 billion in participating security investments since the program began in 1994, approximately $135 million have been invested in Missouri. Those investments netted an estimated 3,750 jobs and over $641 million in portfolio company revenue.

The example I always use because it has relevance to my family is the Build-A-Bear Company. Between 1998 and 2001, two SBICs invested $13.2 million in Build-A-Bear Workshop. It is a retail and Internet business. For those who do not have daughters or granddaughters and therefore may not know about this, Build-A-Bear

Workshop is a retail and Internet business that provides a place for people of all ages to make and name their unique bear or other stuffed creation. The first store opened in St. Louis in 1997. Now the company operates 170 stores in 40 States and Canada. It is opening a store in Sheffield, England. It has gone from 30 employees to 4,000 employees. Madame Chair, it would not have happened if not for the SBIC Participating Investment Program.

I know there are problems and the Government is incurring losses. We are coming out of a recession and whenever we do, as the Chair and the Ranking Member knows, we have to look and refine these equity investments as well as the loan programs. And we certainly need to do that. I also agree that we need to get to a zero subsidy rate for the program. I think we can do that.

But what I would ask the Committee to consider and the Administrator to consider and to do is to work with the SBICs in restructuring the program to come up with a zero subsidy rate, but in a way that allows the program to continue. I think we can do that. I hope that the Administrator will consider that. And I hope those at OMB will consider that, as well. I know they have never really had confidence in this program, but I can tell you it works.

Again, thank you. I am not going to interrupt the hearing any longer, but I thank you, Madame Chair, for permitting me to testify.

Chair SNOWE. Thank you, Senator Talent.

Your points are well taken and we appreciate the expertise you have brought to this matter, because this is a crucial area for venture capital for small businesses. You are absolutely right. We have to find a way to address this problem.

STATEMENT OF HON. NORMAN COLEMAN, A UNITED STATES SENATOR FROM MINNESOTA

Senator COLEMAN. Madame Chair, before Senator Talent leaves, I want to associate myself with his comments. We face the same situation in Minnesota. We understand some of the difficulties.

But we are really faced with what I call a "perfect storm." We went into recession. These are the companies that were hit by that. But I think we can look back at what some of the challenges are. We can get to the zero subsidy rate.

So I commend my colleague from Missouri and let him know that I stand in full support of what he has to say and look forward to working with Administrator Barreto.

By the way, thank you for your leadership. Thank you for doing an outstanding job. I have always enjoyed the relationship. I think this is an opportunity where we can build something that is worthwhile for all of us.

Chair SNOWE. Thank you, Senator Coleman. Thank you, Senator Talent.

Administrator Barreto, let me begin. Obviously you have heard bipartisan disappointment expressed on the direction of some of these programs. We understand the economic vise that you are certainly in, in trying to develop as part of the overall Federal budget. It is obviously multiple challenges.

But I also think in that process, as I have always had in advocating a balanced budget, you have to be discerning about what ultimately are the priorities for the Federal Government.

I happen to think, whether I were Chair of this Committee or not, that we ought to be investing in small business programs because they give you the biggest bang for the buck. It is where job creation is happening in America. If it were not for small business, it would not be happening. Those are the clear and discernible facts.

I think that is the challenge here today, what we can do to reverse that direction. It may well be that under your leadership, that in spite all of those cuts that you have had to endure within these programs, you have managed to make sure that they are moving in the right direction in terms of job creation.

The question is how low can you go before you do harm? That is the problem, when you see a 36 percent decline over the last 5 years and yet we have managed to create, as I showed in the chart, 4.5 million jobs since 2001, 3.2 million with these appropriations and these types of decreases. But when you are talking about eliminating programs like the Microloan program for example, or the PRIME program, folding in HUBZone, another program that I think should meet its statutory goal, we have to figure that one out, as well, level fund the non-credit programs like SCORE and Women's Business Centers, veterans outreach centers, for four consecutive years ultimately it does harm.

In an economy that is disparate, depending on where you live in America, and I can cite that chapter and verse representing the State of Maine. It has a disparate economy. It is a rural economy. We are here to figure out how we are going to fuse America to be one, rural and urban, so that everybody has the ability to enjoy the economic opportunities this country can afford.

And so while we have had all this great growth in certain parts of the country, it is not happening all over. The one unifier, in my estimation, happens to be small business. That is the unifying factor. I do not want to see rural economies withering up. Even in my State, when we see what is happening, turning back their governments because they cannot afford to run them in small towns. That is happening in many parts of America. Small business can be the key to all of that.

That is my concern. We ought to be looking at well, you know, in the overall Federal Government, the macro budget, what are some key programs? It is amazing what these programs do and what they generate for job growth. I am not so sure all of our colleagues know that in the United States Senate, as much as we have tried to give that message. We should be doing more of this. We should not be moving in the direction of cut, cut, cut because ultimately it is going to have a multiplying effect in the wrong direction. We are charting a different course than we should be charting for these programs.

Second, we are demanding on high fees, which gets me to my next point. It is on the 7(a) program. You are going to see a 118 percent increase in the last 3 years in the 7(a) program. Now, I understand that it is being reestimated. The subsidy rate, was reestimated. Now it is a third lower, so it was calculated so much higher last year. We need to find out exactly why that happened, frankly, because ultimately the lenders and small businesses are paying that fee. If it was disproportionately high and it was erroneously calculated, then we better find out why.

But that is the problem. That is what we are depending upon now. Getting the zero subsidies, getting higher fees. I know you have asked for a fee for the secondary market, to have that authority in case you wanted to use it. That is another issue.

But that is what we are dealing with here. So I do not see how that moves us in the right direction to help all of America, because I think we need to help all of America. I think small business is the key to rejuvenating a lot of economies. We have got mom and pop operations that can develop and nurture that otherwise would not get the money from the conventional lender.

So I would like to have you start with how we can move in a different direction, understanding our concerns so that terminating these programs that are job creators or reducing them is moving exactly in the wrong direction.

We should be doing more. And if it is doing so great, we ought to be building upon that. I do not know of any other programs that get this kind of return on investment.

Administrator BARRETO. Thank you, Senator. I agree with what you said.

But I want to put it in a little bit of perspective. We are doing more every single year. Over the last 3 years we have literally doubled the number of loans that we do and the dollar amount. And we have done it in every single community. Our loans to minorities were up again for the fourth straight year. Loans to minorities were a third of all of our loans. We are doing more loans to women-owned businesses, veteran-owned businesses.

And it is happening for a variety of reasons. It is happening because of some of the structural changes that we have made to the way that we run our programs and how we interface with our partners. It has also happened because the economy has gotten better and more small businesses are optimistic of their future. And it has happened because we have become better partners to our lenders.

I would like to read you something, very briefly. This was a quote from Anthony Wilkinson, the Chief Executive of NAGGL, the National Association of Guaranteed Lenders. He said that the bankers have concerns about the higher fees, but they are not nearly as bad as a cap or a shut-down. He said the overriding priority for lenders is guaranteeing a smoothly run program. He said the 2006 budget does that. He says the good news is that we have a program that is open and is not capped. He is a leader of the National trade association.

Also, today we got some great news. It was U.S. Bank, and I will read you a quote from their executive. They have agreed to pay all of the fees for the small business lenders. They have made a business decision. They are going to pay all of these fees and I think this is going to make them very competitive.

He said: "To the best of our knowledge, a fees-paid loan initiative has never been attempted before, but we have already received a great response from both of our U.S. Bank partners as well as our external referral sources."

The point is that these loans and the way that they are structured is good business for our lenders. That is why more lenders are joining the program. That is why we are making more loans. That is why every community is benefiting.

I brought some charts with me, as well, Senator. And as you see here, this will give you an idea of the stair step growth that we have seen in every community. Minority loans, represented by the yellow bar, is what we did last year. This is what we are tracking so far this year. And I have broken it down into every community, African-American, Hispanic, women, veteran. We have never reached so many as we are today.

Chair SNOWE. I do not doubt it, but we could do more. And that is what is puzzling about this request. Because, for example, Women's Business Center, we have the sustainability centers. We have 49. We have made great strides with that program, great investments. And now there is no funding for the sustainability centers. I think that that is unfortunate that this budget does not reflect that. That is one example.

Getting back to the 7(a) program increase, it may well be that there are lenders who can absorb those costs and do it that way. But again, it is going to be done on an ad hoc basis. We now rely on all programs in terms of being zero subsidy, high rates, high fees. At what point is that going to be discriminating against those businesses who simply cannot do it, our entrepreneurs?

Because we are changing it in a way that is going to exclude many from participating in these programs. I think that is a problem. I understand the budgetary constraints and the challenges here. But I think that these fees are going to have varying effects, depending on where you are in America and who you are and what the options are. That is my concern.

When you calculated this by a third less over the last few months and the 7(a) fee ultimately, and now it is going higher next year, and then proposing a fee for the secondary market, I mean that is all cumulative. That is not going to invite participation and growth in these programs that have been working so well.

Administrator BARRETO. One of the things I know there was a concern was about the fees late last year when we were dealing with this. And some of the folks were saying to us it is going to draw people out of the program and they are going to do less loans. Last year was the best year in our history. This year we are up in our 7(a) loan portfolio, up 28 percent. We are up 16 percent in our 504 loan portfolio. We are up 57 percent in loans to African-Americans, 16 percent to Hispanics. We are up 51 percent in loans to women. The fastest growing segment of our small business loans are those loans under $35,000 that are reaching those emerging markets.

So we have not seen the drop off. And primarily I believe a lot of it has to do with the fact that our lenders have told us many times before they need consistency. They need a higher lending level.

When we first started, Senator, we were doing about $9.5 billion in the 7(a) loan program. This year we may do $16 billion. In a short 3 years that budget authority is expanded. And that is really the bottom line for a lot of these small businesses. They want to know that they can access the program. They want to know that there is not going to be any caps on the program. And they want to know that there will be enough budget authority to meet that demand. And that is what we are accomplishing right now.

Chair SNOWE. I well remember the 7(a). In fact, we indicated at the time that it was underestimated by the Administration on that particular question. And the cap and shut down occurred because there was an underestimation of the demand for that program by far.

Administrator BARRETO. And also because of the continuing resolution, the fact that every year for the last 3 years at the beginning of our fiscal year we are on a continuing resolution. That put tremendous pressure on us. That is why we ran out of money. We will not have that problem anymore because we are a zero subsidy rate program. So we will not have those kinds of situations every time our fiscal year starts.

Chair SNOWE. A couple of points. First of all, the Senate did do its reauthorization. It was the House who failed to do that last year, which was regrettable, frankly, because it put us in the situation it did with the continuing resolution and having to include all that language in there. And frankly, especially with the decisions that were being made by the Appropriations Committee in the 7(a) program, that put small business at a disadvantage. We passed it unanimously early-on in the process last year. So regrettably, we were not able to accomplish that overall.

Finally, I think we need to analyze exactly what the effect is across this country regionally, in terms of who is participating and who is benefiting. Because I do believe that that is an issue. I think small business and these programs can do so much to expand the economic growth in parts of the country that otherwise are not benefiting. I think that is truly—what we ought to be doing is maximizing our investments in this program.

If this is working so well, then why are we moving in the opposite direction in terms of the level of appropriations? That is the issue here. Frankly, it is mystifying. We ought to be discerning enough to figure it out. And this is one where it is pretty apparent.

Administrator BARRETO. I agree with you, Senator. One of the key things, I think, to remember—and I think you mentioned it before in your comments—in our key programs we have really maintained level funding. The differentiation, from these large budgets in the past, is that we needed an appropriation to fund our 7(a) program. We saved almost $100 million right there.

This year we are also not asking for as much in our disaster program because we received funding through a supplemental. Obviously, our budget submission is not going to include Congressional initiatives.

So there are some differences, but none of those differences are going to impact our ability to accomplish our mission this year. This year, we will have the best year in our history. And next year we will have a better year than we will have this year because of what this budget represents.

Chair SNOWE. I appreciate that.

Senator Kerry.

Senator KERRY. Madame Chair, thank you.

I apologize ahead of time because I am going to have to step out after these questions. But I want to—let me start by making the point, Mr. Administrator, that there is some revisionism going on here and there is a certain amount of credit taking on your behalf that belies the record of what you sought and what you wanted to do.

The fact is that you requested $12.5 billion. That was the Administration request. We put it up to $16 million. You are sitting here taking credit for a whole bunch of loans that you did not want to make. That is number one.

Number two, the funding mechanism that you put in place with these higher fees was opposed by the U.S. Chamber of Commerce. It was opposed by the ABA, by Women Impacting Public Policy, by most of the groups involved in this lending or whose members need the loans. The only reason they accepted it finally was not because they thought it was going to do a better job for lending and growing the program the way the Chairwoman has said, but because they thought there would be no program at all.

If you think that is great management and leadership, that is your choice. I do not, and I do not think the Chairwoman does either.

The issue here is why we are not taking success and building on it. Dell is the last computer manufacturer left in this company. They used to do TVs and radios. We are struggling as to where the job base is going to be in America.

I come back to my opening comment, which is, you ought to be exciting that entrepreneurship. You say we are making more loans. It is somewhat over your resistance that you are making more loans and we are glad you are making more loans, but you are not making as many loans as you could be, and they are more expensive than they ought to be. And you are not reaching some of the targeted audience that you should be.

Those are the standards here, not are you doing more. But are we doing what we ought to be doing, and are we reaching the people that we are seeking to reach.

I will give you an example. The Office of Advocacy recently reported that 44 firms received over $2 billion in Federal contracts in fiscal year 2002, but were misreported as small. These were not small firms. My question is: Does your $65 billion reported to have gone to small firms in 2003 stand up to the same test for accuracy that was applied to the 2002 achievement? Are they small?

Administrator BARRETO. You are referring to the——

Senator KERRY. Are you sure the $65 billion went to small firms as it did not, as we saw in 2002 contracting?

Administrator BARRETO. First of all, let me take one step back. I do not wish to take credit for all of the great things that are happening in the small business community. I think that credit belongs to our partners, our lenders, our resource providers and the small businesses themselves. Our job is to be able——

Senator KERRY. But you are. You are sitting here and saying we are making more loans. You did not want to make more loans. Congress gave you the power to make more loans.

Administrator BARRETO. I am saying the SBA, through our programs and our resource partners, is making more loans. Those are just the facts. That is what we are doing right now.

I would also say that what we have tried to do when we analyze what to ask for, is see what we have done in the past. Last year we did $12.7 billion. This year we think we can do closer to $16 billion. Next year we are raising it to $16.5 billion.

With regards to these businesses that you reference, sometimes what is happening with these small businesses is they get a contract and then over time they grow and they go outside of the size standard. That is a good thing. We want those small businesses to be successful. Sometimes they are so successful that they merge with another enterprise and now obviously that would not be considered a small business.

Before the Advocacy study came out——

Senator KERRY. That is not what I am talking about.

Administrator BARRETO. Those are the cases that when we have gone back and reviewed them, most of the cases fall into those categories. This is not a wholesale practice of large businesses taking contracts from small businesses. I do believe that most of that $65.5 billion went to small businesses. We do not have a large amount of data representing that these contracts are going to large businesses.

By the way, that is why we put out a regulation last year that is novation rule. When these small business contracts are being transferred to larger enterprises, it is their responsibility to recertify again. So that will take care of a lot of the issues that were dealt with in the advocacy study.

One of the best ways to police this are the small businesses themselves. When they are going after a contract and they are a small business and they realize somebody else got that contract, believe me, they are going to let us know and they are going to petition that contract be overturned.

So we do not see this as something that is happening on a wide basis.

Senator KERRY. I hope not, obviously. When you see such problems, such as the accounting for the 7(a) loan program's subsidy rate, which was 70 percent out of whack, where you overcharged some $42 million to small businesses just on that, would you consider that efficient?

Administrator BARRETO. You are referring to the subsidy rate calculation?

Senator KERRY. Yes, the subsidy rate calculation.

Administrator BARRETO. One of the things that obviously we have been tasked with, that this Committee asked us to look at, was the subsidy rate this problem has been something that has been dogging this program for years. We have steadily made progress in reducing that subsidy rate down to zero. Obviously, the subsidy rate is not static. It depends on what is happening in the portfolio. As new information comes, sometimes we are able to lower that. Sometimes it is going to raise a little bit.

Senator KERRY. We went through this model. We have had this discussion over the years about the modeling and how you set it. I think a lot of people have made constructive suggestions.

Administrator BARRETO. GAO has verified it, Ernst & Young has verified. A number of different entities have reviewed this modeling and said that it is appropriate for what it is that we are trying to accomplish.

Senator KERRY. So you think a 70 percent error rate is acceptable?

Administrator BARRETO. I am not sure it is a 70 percent error rate. But one of the things that happens with these programs is that if they are not operating efficiently, the people who participate in them vote with their feet. The lenders will not make these loans. Small businesses will not seek these loans. And we have not seen that to be the case.

Senator KERRY. You get the gist of my point. I do not want to go back and forth with you and I know you are going to defend it. But I do not think 70 percent is acceptable. And I think we ought to try to find a way to narrow that down. It ought to be the error to your side, not to theirs. That is number one.

Administrator BARRETO. I agree.

Senator KERRY. Let me get back to something else. This is the second year in a row that you want to try to eliminate the Microlending program. Now, some of the justifications that you give for that actually make sense. When you say you want to serve more women and minorities compared to other programs and so forth. The problem is it is filled with contradictions.

Compared to other programs, proportionately you say they do already get more than any other program. You say you want to reach the underserved areas. But currently 40 percent of Microloans go to rural business. You say you want to reach more startups. Currently 40 percent of all Microloans go to startups and they exceed the SBA's goal.

So your goals are contradicted by the realities of what is already happening, number one.

Number two, you say that the SBA Microloan program can be substituted for by the Community Express program. But that program does not loan to startups, only established businesses. So you have eliminated a whole category right up front. You say you want jobs created and the SBA's Microloan program creates jobs for $3,500, as I mentioned, versus a much larger amount. The program is so well designed with its loan loss reserve and technical assistance program that a spokesperson from the SBA said in a recent article in the *Wall Street Journal* that the Mircroloan program has a "minuscule" default rate, "miniscule." And I mentioned the one or two defaults earlier.

So how, given these problems, do you justify moving off into this arena, where you cannot do the things that it does today and does successfully? I do not understand that.

Administrator BARRETO. And obviously we talked about this last year, as well, and nothing that has changed over the last year has really changed from our perspective. Last year we did 2,425 Microloans, those under $35,000 in the United States.

At the same time, we did 24,000 loans under $35,000 in the SBA Express program. Many of those were in the Community Express program, which also provides training to them. In addition, there are 600 lenders, non-Government microlenders in the United

States, that do a much better job at this than we do, reach many more people.

In fact, I would agree with you that the Microloan program has created a market for many other private sector entities to be making these same types of loans to these same types of communities.

Senator KERRY. That does not address the startup issue and it does not address the rural issue.

Administrator BARRETO. Again, a third of those loans that are made inside of the SBA Express program are going to emerging markets, are going to minority communities, are being made out in the rural communities.

Senator KERRY. Established businesses.

Administrator BARRETO. And many of those are new businesses, very new businesses in the minority communities, for example. The thing for us is it costs us a lot of money to make a Microloan. It costs us a dollar for every dollar that we put out. Last year we put out $33 million in the Microloan program and at the same time we put out $375 million of these smaller loans in the 7(a) program.

Three years ago we were not making many small loans. The average loan size at the SBA in 2001 was almost a $250,000. And a lot of those small businesses came to us and said look, I need to be able to get these small loans. We need to do it across the board, not just in the Microloan program. That is where we made a lot of those changes to the SBA Express program.

Senator KERRY. This committee, I think, began the whole effort to try to reach those lower level years ago, long before you came here. So the Committee has been long pushing for Microlending and smaller lending and so forth. What is happening is I think you are going to shut out a very important market for these kinds of startups, which runs contrary, incidentally, to the whole value system about work and work ethic which we are trying to instill in certain communities.

Administrator BARRETO. The Community Express program does do the startups. That is part of the 7(a) portfolio. The SBA Express will be dealing with a little bit more established companies, but Community Express will do startup loans.

Senator KERRY. I am just being shown, this is apparently from a 7(a) Community Express Lender questionnaire on small business lending which says: Can I use this loan to buy a business or start a new business? And the answer the Community Express Lender put out is: No, at this time all of our business loans are meant for existing businesses.

So I would just ask that this be put in the record.

Chair SNOWE. Without objection.

Senator KERRY. We can figure it out as we go forward.

Madame Chair, I have gone on longer than I should, but I would like to ask permission to have the record extended and to submit some questions in writing.

Chair SNOWE. It will be extended, without objection.

Senator PRYOR.

Senator PRYOR. Thank you, Madame Chair.

Let me, if I may, follow up on a couple of points that the Chair made a few moments ago. The first thing that she talked about is how small business is really where the action is in our economy.

That is particularly true in my State. When you look at Arkansas, basically the backbone of my State's economy is agriculture and small business. When we look at job creation and job growth, even though we have a lot of great Fortune 500 companies in Arkansas, small business really is where the action is. So small business is something that I think we are all concerned about for our own reasons and our own perspectives.

The other thing that she mentioned is the Women's Business Centers program, and I would like to ask you about that. During the last 10 years, the centers generated an estimated economic impact of $500 million. Do you agree with that figure, $500 million?

Administrator BARRETO. I have seen some figures that relate to that. I am not sure what the methodology they use or how they track that, but I have seen some numbers showing that.

Senator PRYOR. Somewhere around $500 million?

Administrator BARRETO. I believe so.

Senator PRYOR. You ought to know what that is because you are changing the program. With an investment of only $37 million over a 10-year time period there was a $500 million return on that investment. In other words, a $500 million economic impact. That seems to be a pretty good return on investment. Would did you agree with that?

Administrator BARRETO. We totally agree with that.

Senator PRYOR. Again, not to dwell too much on my State of Arkansas, but just recently this week there was an announcement that once again a small plant in a small town is going to lay off its entire workforce and close the plant. About 200 jobs will be going away.

But when you look at the Women's Business Centers and the activity that they have been able to generate in a small State like mine; I think that about 3,400 people have participated in the program, 300 businesses have been started or expanded and 500 jobs have been created; there has been a large impact. All this activity may have been in small communities, small businesses, but overall it has had a large impact on my State and I am sure it has had a similar impact around the Nation, as well.

My question to you is how you justify cutting funding for this program when it has created such sustainable jobs and sustainable businesses?

Administrator BARRETO. Thank you for that question, Senator.

Let me first say that we agree with you, Women Business Centers are critically important. The purpose of Women Business Center Program is to provide these grants to non-profit organizations for them to start these Women Business Centers and help the women businesses in their area. And they have done a good job to do that.

But the way that the program was envisioned is this was supposed to happen for 5 years. After 5 years these organizations would be self-sufficient. The problem that we have had is there are many areas around the country, in rural States like Arkansas and many urban centers that do not have Women Business Centers because they cannot get them because there is not enough money.

The intention of Women's Business Centers was to provide these groups and these communities a hand up, not a handout, a hand up. This was not supposed to be a static entitlement program.

The centers that are doing very well are centers that have been around for a few years. They are associated with a Chamber of Commerce or another business association and are also raising monies from other areas. These centers are not SBA centers. These centers belong to those communities. They belong to those organizations. We want to help them be successful.

So what we are basically suggesting is that we go back to what the original purpose of the program is. Los Angeles just got their first Women's Business Center, a city that has probably the most small businesses, the most women small businesses of any place in the United States, until recently could not even have a Women's Business Center. So those are the kind of opportunities that we want to address.

We think Women Business Centers are very important. We want to grow new Women Business Centers around the country.

Senator PRYOR. But there again, let us get back to what you said a few moments ago. They have worked well.

Administrator BARRETO. Yes, they do, they work very well.

Senator PRYOR. So why change it?

Administrator BARRETO. Because the original purpose of the program was to be a 5-year grant. That is the original purpose of the program. So what we want to do is help those Women's Business Centers be successful over that 5 years so they can become independent. The most successful ones are.

Please remember that the Women Business Centers do not receive all of their funding from the SBA. They leverage that. Our most successful examples of technical assistant providers, the SBDCs, the SCORE, the Women Business Centers, leverage those investments. And that is how they become successful. That is what we want Women's Business Centers to do.

Senator PRYOR. Let me go back to another one of Senator Snowe's questions to you that you did not answer, and that is if the programs are working so well why cut their funding?

With her you gave a lot of background and you end up losing everybody. Again, why are you cutting funding for programs that are working so well?

Administrator BARRETO. What we are doing is we are investing our resources in programs that are working well and that is shown by the numbers. Numbers are a stubborn thing. We are training more people than ever before. We are doing more loans to women. We are doing more contracting. We have doubled the number of loans that we have done over the last few years. We are reaching every community in the United States.

That is the bottom line for a business, you look at those success statistics. For us, we are doing more in every area. Again, what the SBA does is we facilitate these programs and these opportunities. We work with many other resource partners. We are not the only ones that do these programs.

But what we do is very unique and not just anybody can do that. That is why I think that we have been successful over the last couple of years.

Senator PRYOR. Answer her question and mine. Why are you cutting funding for programs that work?

Administrator BARRETO. Senator, with all due respect, you would have to be specific as to which program you are referring to, and then I would be able to answer that question.

Senator PRYOR. There is a long list of programs. Just pick one.

Administrator BARRETO. I will answer any question you would like me to answer, Senator.

Senator PRYOR. Let us look at the Women's Business Centers. Why are you cutting funding for this program?

Administrator BARRETO. The original purpose of the program was for it to be a 5-year program. We want those Women's Business Centers to be successful and we want to create new Women's Business Centers in areas that are not served right now.

There are many, many women's groups and women centers that come to us all the time, saying we would like a Women Business Center in our area. And oftentimes we have to say no, we cannot fund a Women Business Center because we do not have the resources to do that.

These changes that we are making to Women's Business Centers will allow us to do that, to start identifying new opportunities and make those Women Business Centers successful. We want to work with them in the early years so that they do not get to year five and then come back and say we are not going to make it without your funding.

Again, remember, these are not our Women Business Centers. These centers belong to those communities.

Senator PRYOR. I think we are plowing the same ground over and over, and I guess I am not satisfied with your answer. But I have been handed a long list of programs that have been zeroed out. Just zeroed out. Not changed, but zeroed out.

Administrator BARRETO. Again, it would depend on what program you are referring to. One of the things that we did, and it was referenced in the earlier testimony, is that we have asked for resources, for example, in our Office of advocacy, in the Office of the Ombudsman, in the 7(j) Technical Assistance program, in the HUBZone programs, in the USEAC programs, in the Native American outreach.

But is not represented by a line item. In fact, we, as has been customary over the years, spend much more on those programs than is actually reflected in a specific line item.

Senator PRYOR. For example, the PRIME program. You have taken that funding from $5 million to zero. Why are you doing that? Has PRIME not worked well?

Administrator BARRETO. One of the things that has happened is that——

Senator PRYOR. Has PRIME worked well?

Administrator BARRETO. The program is duplicative of what we are doing, the technical assistance that we can provide to those communities.

I have a chart here I would like to show you. One of the strengths of the SBA is the fact that we have one of the widest networks of any agency or any Government department. This map right here reflects all of the resource providers that we have in the

United States. They are in every State, in every major metropolitan area. We believe that we can continue doing the job with the current network that we have.

So on programs that we feel are duplicative, yes, we are not going to ask for funding and we are going to continue to fulfill that mission inside of the network that we currently have. We spend hundreds of millions of dollars on this network. We want to make sure that it is being fully utilized.

The good news is that it is being fully utilized. Three years ago, the SBA counseled and trained through all of its resource providers about 1.5 million small businesses in the United States. Last year we did 2.5 million, and it has been level funding in those programs.

In other words, those programs are more productive now than ever before. And we believe they are going to continue being more productive.

Senator PRYOR. Madame Chair, I think I am overstaying my welcome. Thank you so much.

Chair SNOWE. Thank you, Senator Pryor, I appreciate it.

Senator Coleman.

Senator COLEMAN. Thank you, Madame Chair, and thank you, Administrator Barreto.

I presume we could get into debates about specific programs. But I hope, and I am confident we have common vision in the fundamental importance of small business and growing it in this country. I have a much more optimistic view of the nature of the American economy than some of our colleagues. But we have seen a lot of job growth in the last year, close to 3 million new jobs since March of 2003. But is about small business.

A Republican Congress did not build the economy, and Alan Greenspan did not build the economy, big Government did not build the economy. It is American entrepreneurs. And so the things that we can do to support their efforts are important.

As we have this discussion, I do hope and I want to put in the record, that we do not forget that it is things like bonus depreciation and increased expensing and cutting regulation and a whole range of other things that are shackles around small business. And as we release those shackles, as we make capital more available, it is a lot better than loan programs. The programs are important, and I am going to talk about some. But I hope we do not forget the fundamental importance of those kind of structural things, tax rates, opportunities to reinvest capital, regulation, et cetera, that have an impact on what we talk about.

I do share, and I have listened to your explanation about Microlending. I do not care what you call it, but I do think it is important, particularly the startup issue. I think it is actually a world model. I have traveled around in Africa and they do Microlending programs today. And so I just hope that we reflect upon the importance of this concept. What you have to deal with is the efficiencies of the operation. You can do 10 times the number of loans in SBA Express, but there is something very important about Microlending, very important about startups, the folks who cannot get it.

So we need to continue this conversation. I actually think it sends the wrong signal, the wrong message when we talk about getting rid of the Microlending program, even though you can come back justify certain things with numbers.

But I think that message out there is also important and perception is important. And so I hope that we kind of keep that in mind.

Let me just turn to another issue. We have a lot of small businessmen and women who are in the National Guard and the Reserve. And they are increasingly being stressed today for longer periods of deployment. I just got back from Iraq a couple of weeks ago and I talked to folks. How are you taking care of your family?

Are we doing anything within the SBA to deal with the changing circumstances of so many American men and women who find themselves through the Guard, through the Reserve on these extended periods of deployment?

Administrator BARRETO. Yes, sir, Senator and thank you very much for that question.

We have done a lot over the last couple of years. One of the things that we started a couple of years ago you might remember is the Military Reservist Economic Injury Disaster Loan. It was so long of a title that we shortened it to Mr. EIDL. That was easier for us to remember.

These were low interest loans to folks that had been deployed and owned a business. They could actually even go to individuals who did not own the business, but maybe had a key employee in that company deployed.

What we also have done is made sure that as all of the military personnel are coming back, that they get a package of information from the SBA on all of the different things that we can do. Not just these Economic Injury Disaster Loans, but where Veteran Small Business Development Centers are that we fund.

There are a number of different other programs of which they can take advantage. Obviously, something very important happened last year, and that was the signing of legislation that created a 3 percent Federal contracting goal for service-disabled veterans. So we are going to work very hard to make sure that those folks that have paid the highest price to this country also have assistance from the SBA at their time of need when they come back.

We are doing a number of different things from the procurement side like business matchmaking to actually plug them into real opportunities. So this is a very important issue for us. I have a National Advisory Committee of Veterans that report to me on a regular basis. I meet with them. We work very closely with the Veterans Department also looking for opportunities to get the word out there.

Veterans are no different than other small businesses. A lot of times they do not know what they do not know and it is not their fault. It is our responsibility to reach out to them and make sure that we inform them, so they can take advantage of all the opportunities that we can bring to bear on their behalf.

Senator COLEMAN. I appreciate that because the world has changed for certainly the Guard and Reserve folks in the last couple of years. So what we did 4 years ago is an entirely different circumstance.

So I appreciate the focus and I would urge you to keep that attention and make sure that we are doing what needs be done for those folks who are putting themselves on the line and sacrificing for us.

One last question. In one of the exchanges you talked about the HUBZone program. Can you give me—that is an area of concern for me, particularly effectiveness in rural areas. Can you help me understand a little bit what changes you are making and how that is going to make the program easier to use and effective, particularly in rural areas?

Administrator BARRETO. Sure. As you are probably aware, there are some changes that are coming to fruition. We are going to be able to allow more small businesses, especially in those rural areas and Native American communities to apply for the HUBZone. We are doing a mapping process right now to get that information out. That should be done by the end of April.

But we are trying to make it easier for small business to participate in the HUBZone program, as well. We have seen a large growth of HUBZone firms over the last couple of years, as more information goes out, as we continue to simplify the process of people registering so that they do not have to submit a phone book of forms to us, all of those things are helping.

We are going to be doing a lot of information sharing with communities. We work very closely with the HUBZone organization, for example, and participate in their events. They participate in all of our events. So we think that this is another tool that small businesses can use to access Federal procurement.

In fact, a lot of times we find that small businesses are participating in several different programs. They may be a small disadvantaged business, and 8(a) firm, a HUBZone firm, and participating in our procurement activities as well. That is really, we think is a very good situation. It just gives them more bites at the apple, if you will, and surrounds them with more tools.

Senator COLEMAN. I appreciate it.

A last comment then, just to reiterate what by colleague from Missouri, Senator Talent, raised on the Participating Security Program. I hope that the Administration will work with the Committee and work with small business to see what we can do to find a solution to help continue this program. I think it is important. Thank you.

Thank you, Madame Chair.

Chair SNOWE. Thank you, Senator Coleman. Senator Coleman makes an important point on Microloans because under USAID, we provide, at least in 2002, $170 million for foreign microenterprises. So it is true, it is a worldwide tool to develop small businesses in underdeveloped countries.

So clearly, it is very difficult to send a message of somehow eliminating this program for $15 million when we are doing it worldwide in foreign countries at $170 million.

Senator Thune, welcome to the Committee. It is nice to have you as a Member of the Committee.

STATEMENT OF HON. JOHN THUNE, A UNITED STATES SENATOR FROM SOUTH DAKOTA

Senator THUNE. Thank you, Madame Chair and other Members of the Small Business Committee. I want to take a moment and thank you for the opportunity to serve on this important committee.

Small businesses are the backbone of our economy in South Dakota, as well as the Nation. And whether it is a farming operation in a small town like Oneida, South Dakota, or a machine shop in Sioux Falls, small businesses do create the majority of jobs in my home State of South Dakota.

In fact, 97 percent of employer firms in South Dakota are small firms. South Dakota has also seen the number of women-owned businesses grow at a rapid rate. Between 1997 and 2004 it is estimated the number of women-owned firms in South Dakota increased by 26 percent. Employment grew by 109 percent, and sales increased by 211 percent.

So we have got a great story to tell there. And I think what is important is that here in Washington we need to do those things to ensure that these small businesses have an environment in which they can thrive and prosper. I believe that includes reducing the burden of taxation, regulation, litigation facing small businesses today. It is clear that these burdens raise the cost of doing business substantially and, in turn, make it harder for small businesses to grow and create new jobs.

Serving on this Committee is a unique honor for me since I have previously worked at the Small Business Administration during the Reagan Administration. And so I look forward very much to being involved with the issues that affect the Agency.

I would like to thank Administrator Barreto for his willingness to come down here and to present the President's budget proposal today. The SBA is guaranteeing a record number of loans and helping more small businesses than ever. So I want to say thank you and give credit where credit is due in that regard.

The President's budget proposal is, as I like to say, the starting point and not the ending point. And we are going to have a lot to say before this process is concluded.

I am not going to get down into the weeds of the individual programs, but I look forward to working with you, Madame Chair, as well as with our colleagues on the Committee and in the Senate, to ensure that we have a budget that although will be tight and tough, addresses the important priorities of small businesses around this country and allows the Agency to continue to perform its duties and its services at a high level.

Just by way of a question, if nothing else, I am curious to know in your experience, Administrator Barreto, having been there for some time now and obviously traveled the country and visited with a lot of small businesses—I do that on a fairly regular basis in my State as well, tour businesses, ask them what their issues are, what things can we in Washington do either for you or what things can we not do to you, I guess may be a better way to phrase it sometimes with some of the small businesses.

But what do you see today as the biggest barrier to small businesses? What is it that you hear out there that, in terms of allowing these businesses to grow and create jobs and expand the economy in this country. What is that barrier?

And then perhaps maybe just to expand upon that a little bit with respect to what the Agency is doing and realizing that you are somewhat limited in the tools that you have at your disposal to address those barriers.

Administrator BARRETO. Thank you, Senator.

There are a number of different issues. I have spent a lot of time as SBA Administrator working with small businesses directly. I learned a long time ago that you learn a lot more when you listen to your customers than when you talk at them. They will tell you everything that they need to be successful. So we have done a lot of that. I have traveled every part of this country, met with countless small business groups.

You have hit a couple of areas that are critically important. Small businesses will say to us a lot of times look, the programs are great, we like the programs, they are great. But if I am not in business it does not matter.

So the things that this Committee has worked on in the past with us I think have been very, very instrumental. Sometimes I do not think that we give enough credit to what this Committee and the Administration working together have already accomplished.

The tax relief policy was huge. A lot of people did not understand that 80 percent of the benefit of the tax package went to small businesses. It saved them $75 billion. A lot of small businesses told us they could tell exactly when their business turned around. It was exactly when that tax package went into effect.

Now what they are asking us to do is make it permanent. They are saying that now that business is starting to turn around, please do not make these things go away. Do not take away our deductibility, that $100,000 that afforded them the opportunity to buy equipment and inventory and technology that they were not buying before. So tax relief is hugely important.

We referenced regulatory relief. Since this Administration has been in place we have saved small business something on the order of $80 billion simply by allowing them to comply with Federal regulation in a more streamlined manner or eliminating redundancies. Those are huge, especially for a small business.

Senator Kerry mentioned earlier the importance of health care. And we totally agree. That is their No. 1 problem, their No. 1 criticism, because they get double-digit increases every year. They cannot pass those costs onto their customers. They are the only group, and they know it, that does not have access to health care. If you work for a corporation, if you are a member of your union, if you are a Government employee like me, you have got health care. If you are a small business, good luck. Most Americans that do not have health insurance either work for a small business or have a spouse that works for a small business.

We started dealing with this last year with health savings accounts. That is a tool that they can use to lower their health insurance premiums. It does not solve the health insurance crisis in America. We need to expand health savings accounts, provide more incentives, more tax credits.

We are very hopeful, and I know that we have all spoken about this many times, that we can deal with association health plans for the first time. It has not been dealt with in the Senate, and many of you know—and you dealt with this Senator Thune when you were a Congressman. The House has voted on association health plans twice, but the Senate has not taken it up yet.

Small businesses are desperate for any kind of relief that they can get in this area. Their attitude is let us try this. If it does not work, we can always go back to what we had before, which was nothing. We believe that could lower their health insurance premiums 25 percent. 25 percent to their bottom line. It is like giving a small business a 25 percent raise just by helping them deal with health care. So that is a critical issue.

We need to do something about tort reform, eliminate frivolous lawsuits. A lot of small businesses are put out of business because they are having to fight lawsuits that should not been brought in the first place. It is not saying eliminate all lawsuits, but those that are frivolous, those that get shopped around and really affect small businesses.

We need to open up new markets for small businesses. That is why the things that we are doing with regards to international trade are so important. We talk a lot about 97 percent or 98 percent of all businesses in the United States are small businesses. Well, 98 percent of all exporters are small businesses, too, but they only represent 30 percent of all the trade that is going on.

All of those issues we have worked very closely with this Committee and SBA has taken a leadership position on this, too, advocating these issues on behalf of small businesses.

Small businesses said to us in the beginning look, we appreciate everything that you do for us, but we need a voice at the table. We do not feel like sometimes folks in Washington understand what we are dealing with here. And now, working with the Senate and the work that we have been able to accomplish in the Administration, I think that they are starting to understand that they do have a voice at this table. This is a very important voice and we are going to continue listening to it and doing something about these issues that critically impact small businesses everywhere in the United States.

Senator THUNE. Thank you. Madame Chair, I am sure my time has expired. Thank you.

Chair SNOWE. Thank you, Senator Thune. I appreciate your comments and your presence here on the Committee.

Speaking of the health care issue, that will be the next hearing and focus of this Committee. In fact, I introduced association health plans yesterday with nine other cosponsors. It is a bipartisan bill. And hopefully we can pave the way for enactment of this legislation this year.

You are right, the House has passed it on two or three occasions previously, but we have been unable to do so in the Senate. So I think we really have to take away a lot of the myths about that legislation and what it actually does and deal with the facts. Hopefully, we can encompass that in the final analysis.

I will release you very shortly here. I just want to make a couple of points on some of these issues.

Let me just say I hope that we are able to have a conversation and discussion on some of these issues that I know have been proposed in the budget, but obviously are concerns to Members of this Committee. I know the Microloan program has worked very well throughout this country. I really do think it needs to be preserved as an independent entity within the Small Business Administration budget.

I am just concerned that they will not be served by the 7(a) Community Express program. In fact, I do not know if you happened to see a *Wall Street Journal* article that appeared last week about a man who used unusual collateral for the program, which was his prosthetic leg, which was an amazing story. Under the Microloan program you can end up using unusual collateral. Fortunately, they did not take it and they just obviously issued him the loan.

But the point is here it is for those who are not able to qualify for traditional lending programs because of their history or whatever the case is, but certainly have something to offer in the small business arena. So I hope that we can work through that.

Also, under the 7(a) lending program, you have to have a prior history of about one to 3 years. That is another part of the problem, as well, in merging those programs. Hopefully these other programs would take care of it. I really would like to preserve it at least for the 2,400 who have applied for the program.

Finally, on the SBICs, we can discuss this whole issue. I will hear from the subsequent panel regarding the Participating Securities. There is no leverage budget projections in the 2006 budget. Again, last year the Administration requested $4 billion for this program. This year it is zero. There is a big disparity between $4 billion and zero. What would account for that change?

Administrator BARRETO. $2.7 billion in estimated losses.

Chair SNOWE. I know, but I do believe there is a way of working through some of those issues because as Senator Talent was indicating, it is one of the very few venture capital—it is the only one for small business in the final analysis. I understand your concerns. We do not want it to be a money loser.

Administrator BARRETO. Senator, I want to assure you we made $4 billion in commitments last year. We still have an existing SBIC program. There are 400 firms that currently participate in that program. We have asked for money for the debenture side of it, so we believe that we are going to be able to continue putting venture capital through that side of the program. And obviously we will continue working closely with this Committee and the industry to find any solutions that may be out there for us on this program.

Chair SNOWE. Also, what Senator Coleman referred to in the veterans business programs, as well. 37 percent of the Guard is now either employed or are small business owners who are participating, who have been activated. This is the largest activation since World War II. I think we have to move in the direction of helping them.

This program has been level-funded for 4 years now at $750,000. I think we need to work on that, as well.

And Senator Bond would not be happy if I did not raise HUBZones. So again, is there not a way of accomplishing the statutory goal? We have done that for the 8(a) program and you have spent three times as much on the 8(a) program and met and exceeded those expectations.

Administrator BARRETO. We are working very hard on it. Obviously, the percentage of procurement in the HUBZone program has gone up. We are dedicating a significant amount of resources to the HUBZone program this year, through our GCBD budget that will be part of the salaries and expense budget. And will continue exploring every way that we can grow that program. It is an important program. We are committed to it. As I said before, it is another tool in the tool chest for small businesses to access Federal procurement.

Chair SNOWE. It certainly is. In fact, in the moratorium and redesignations again, I know for Worcester County in Northern Maine, which has been hard hit with base closings and so on and is still recovering, it is so important because some of those business entering that program have yet to utilize the benefits of that program. So I do think that that moratorium is essential as well.

In any event there are a number of issues that it is clear we have to work through. Senate Thune said it well, this is the beginning of the process, and not the end. So I appreciate it and I appreciate your willingness to be here today and for your cooperation. We will be discussing health care, without question, indisputably. We need to get that done for the small business community.

Administrator BARRETO. Thank you very much.

Chair SNOWE. Thank you, Administrator Barreto.

Administrator BARRETO. Chair Snowe, Senator Coleman, Senator Thune, and all Members of the Committee, I appreciate the opportunity be here and I look forward to working closely with you this year.

Chair SNOWE. Absolutely. Thank you.

Let us proceed with the second panel.

Our second panel this morning represents the small business community on several key issues that are reflected in the SBA's 2006 budget and legislative proposals.

First, we will hear from David Coit, former Chairman of the National Association of Small Business Investment Companies, and Managing Director of a highly successful SBIC firm North Atlantic Capital, who happens to be based in Portland, Maine.

Also testifying is Daniel Betancourt, who is representing the Association for Enterprise Opportunities. He is a member of the Board of Directors and is also President and CEO of the Community First Fund of Lancaster, Pennsylvania.

Next on the panel is John Massaua, who will testify in his capacity as member of the Board of Directors, the Association of Small Business Development Centers. John is also a State Director of Maine's Small Business Development Centers. It is great to have you all here.

Patricia Sands is here representing the Association for Women's Business Center. Patricia is the owner of Spill-Guard, LLC and has participated in the SBA's Women's Business Center program.

Finally, testifying on the SBA 7(a) Guaranteed Lending program is Edward Tuvin, who is First Vice President of the Community South Bank based in Tennessee.

I thank all of you for being here today, for traveling great distances from North and South. We are delighted to have your input. And now that you have heard from the Administrator, you might want to respond to some of those issues that will help to be clarifying or otherwise. But I do appreciate it.

If each of you would summarize your testimony within 5 minutes and then we can have questions and answers.

Mr. Coit, thank you for being here.

STATEMENT OF DAVID COIT, MANAGING DIRECTOR OF NORTH ATLANTIC CAPITAL ON BEHALF OF THE NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES

Mr. COIT. Thank you, Madame Chair and Committee Members.

I am here representing the National Association of Small Business Investment Companies. I am the immediate past Chair of NASBIC. I am still on the Executive Committee. As you know, Senator, I spent a lot of time here in Washington last year working on the Participating Securities program.

My other job, as you said, is running North Atlantic Capital Corporation. It is in Portland, Maine. We invest $2 million to $5 million. We are a Participating Securities SBIC. We invest in companies from Maine to Virginia to Western New York State, and very much feel that we do serve an underserved sector of the venture capital industry. We serve underserved geographic markets that you noted like in Maine, Western Massachusetts, Western New York State. We invest in manufacturing companies, which is the sector that is often not invested in or actively invested in by the broader venture capital community. We invest in amounts which are typically well below the average of the National industry.

One of the points I want to make and leave you with today is that the SBIC industry, particularly the Participating Securities industry which is at risk, is filling a need that is not otherwise met by the broader industry. We know the program has some problems and we worked very hard last year to try to solve some of those problems. I think if we continue the effort this year, we might be able to have some success.

We were actually pleased to see that the Administration supported the SBIC Debenture Program, at the $3 billion level. As Administrator Barreto said, that program has been around for a long time and is quite successful and has been successful over the years. I think it is important to note, though, that in its 46-year history that program itself has had problems so the fact that the Participating Securities program may be having some issues today does not mean it is time to scrap it. The debenture program, which I think everybody recognizes is extremely successful, has gone through its own bumps in the road and corrective measures have been taken. Today it is an extremely successful program. So we were very pleased to see that the Administration continued to support that program.

We were equally unhappy and concerned that there was no support for the Participating Securities program going forward. This program does represent half of the investing that is done by the SBIC industry. It was designed specifically to address the equity gap that exists. I do take very strong exception to Administrator Barreto characterizing the Debenture Program as filling that need. In fact, the Participating Securities Program was created 10 years ago because the Debenture Program specifically did not meet the equity needs of small business. It is designed to support subordinated loans for mature companies which have positive cash-flow.

So I want to be on the record that the debenture program does not meet the needs that we are talking about and it is something that we all need to work on.

Senator Snowe, you have visited a couple of our companies, even in your home town, Diamond Phoenix Corporation and Elmet Corporation. I do not really have time today to go into the long and wonderful stories of these two companies.

But just as an overview, these were two companies that North Atlantic invested in—actually, in the case of Elmet, four SBICs invested in it—which probably would not exist today in Lewiston, Maine, which had a great history back in the days of shoemaking and textiles and is still suffering to some degree to come into the modern economy. Here are two manufacturing companies which have transformed themselves with SBIC funding from old world economies to now addressing some very current world marketplaces. Both of them are growing and very successful. So they are two very strong examples. We are on record at SBA, the histories of those companies are on the SBA Website. It is very good examples of underserved markets both geographically and in terms of size and in terms of industry. They have been supported by the Participating Securities Program.

Finally, I would be remiss in saying that having spent so much time here last year I was not very disappointed in the process. I think the industry worked well with your staff and the staff of the House Committee on Small Business. We crafted legislation that we thought made great sense. We worked with the private sector, both people who invest SBIC money and people who invest in SBICs. And I think we came up with a very elegant solution last year. Unfortunately, it did not pass the Credit Reform Act standards. The problem that the CRA issue was brought forth to us by OMB very late in the process.

I hope this year that with the help of your staff and the industry we can get the Administration engaged in a more active dialog so that we do not waste a lot of time because your staff spent a lot of great time. Unfortunately last year was wasted, but hopefully we can complete the job this year.

Thank you. I look forward to your questions.

[The prepared statement of Mr. Coit follows:]

NASBIC

America's Small Business Partners

Statement
of
David Coit

President
North Atlantic Capital
&
Immediate Past Chairman
National Association
of
Small Business Investment Companies

Before The

United States Senate
Committee on Small Business & Entrepreneurship

February 17, 2005

National Association of Small Business Investment Companies
666 11th Street • N.W. • Suite 750 • Washington, • DC 20001
Tel: 202.628.5055 • Fax 202.628.5080
www.nasbic.org
E-mail: nasbic@nasbic.org

Madam Chair, Senator Kerry, members of the Committee:

It is an honor to testify on behalf of the National Association of Small Business Investment Companies regarding the Administration's FY 2006 budget proposal for the Small Business Investment Company (SBIC) program. NASBIC is the only professional association dedicated to representing the interests of all licensed SBICs. We hope our views are helpful to the Committee as it considers the issues we will address today.

By way of background, I am President of North Atlantic Capital in Portland, ME and a member of NASBIC's Board of Governors, having served as Chairman of the organization for the 2003-2004 term. At North Atlantic Capital we manage two Participating Security SBICs focused on small businesses requiring capital in the $2 million to $5 million range. We concentrate on businesses located in the Northeast. A good example of one of our investments is Diamond Phoenix Corporation of Lewiston, ME, a leader in providing integrated material handling equipment, software, and control technology for order fulfillment systems. We first invested in the company in 1998 and have invested approximately $4.0 million over five years. I am pleased to say that our investments have been instrumental in helping the company grow to its current size—120 employees—and to weather the recent recession. Diamond Phoenix has eight offices in eight different states as well as an office in London, England.

With that introduction, I will turn to issues related to the Administration's FY 2006 budget proposal. I will summarize my remarks, but ask that my full testimony be included in the record.

<u>**The Administration's Budget Proposal**</u>

1. We are happy to see the Administration continue its strong support of the Debenture program at the $3.0 billion level. As you know, Debenture SBICs primarily make subordinated loans to small businesses with sufficient cash flow to cover the interest payments. The subordinated nature of the loans makes them an important part of the balance sheet insofar as attracting senior bank debt that is so important for business operations.

   While $500 million less than the authorized level for FY 2006, the amount should be sufficient to meet the projected demand for new Debenture leverage during that year. We are also pleased to note that the FY 2006 interest rate adjustment required to maintain a zero subsidy rate for appropriation purposes is virtually unchanged, increasing by less than seven one hundredths of one percent.

2. We are very disappointed that the Administration failed to propose any new Participating Security leverage in FY 2006. As you may remember, the Administration had requested a $4.0 billion program for this year (FY 2005) if the program could be restructured in a way to produce a "zero" subsidy rate for appropriation purposes. Unfortunately, we were unable to come to an agreement with the Administration last year—despite the best efforts of this committee—as to how that restructuring should be accomplished. We treat it as an open issue that we hope will be resolved through further negotiation. However, the budget proposal indicates that the Administration wants to close negotiations altogether. We are not certain why that is the case. Clearly the need for equity capital of the type provided U.S.

small businesses by Participating Security SBICs can not have fallen from the $4.0 billion proposed by the Administration last year to the $0 proposed this year. Nor can it be that the industry is trying to spend scarce government resources: we acknowledge program losses under the current structure—even if a substantial percentage of those losses can be attributed to the recent recession—and we agree that the program must be restructured to run at a true zero subsidy rate requiring no appropriation and no program wide losses that would increase the deficit. We hope that the Administration will reconsider its position during the course of the next few months so that, collaboratively, we can revive this segment of the SBIC program—the segment that provides more than half of all SBIC investments annually.

3. The Administration's refusal to ask for any new Participating Security leverage in FY 2006 has two major consequences, both negative. First, it continues the break in the pipeline of new funds that we are experiencing this year. Participating Security funds, like most venture funds, are formed as 10-year partnerships that make original investments during the first five years and then support those investments with follow-on rounds over the last five years. If new funds are not being formed every year, the capital available to small businesses that have not already received some will dry up quickly. And it is not easy to turn the flow back on quickly. It can take as long as one and one half to two years for a management team to both raise the capital and go through the SBA licensing process. Further, once experienced management teams leave the program, they are unlikely to return in the future. Thus, failure to "fix" the problem will result in less money for small business and fewer experienced management teams to call upon to run the program if the government tries to reinstate the program sometime in the future.

4. The second and equally negative consequence of the Administration's proposal is its abandonment of existing Participating Security SBICs that will need leverage in FY 2006 to operate in accordance with the business plans that SBA approved in the licensing process. Although Participating Security SBICs hold over $5.0 billion in commitments as a group, individual Participating Security SBICs in good standing do not hold commitments sufficient to meet their leverage requirements as approved by SBA in the licensing process. Based on a survey of all Participating Security SBICs, NASBIC estimates this requirement to equal approximately $80 million per year for the years FY 2006 through FY 2010. If unable to draw the leverage when needed, the effected funds will have less diverse portfolios (increasing risk of fund failure) and less money to invest in existing portfolio companies (increasing risk of failure for the very companies the program is designed to support). Failure to solve this problem will constitute a breach of the implicit promise made in the licensing process that leverage sufficient to fund approved businesses plans would be available so long as those funds remained in regulatory compliance. We look forward to working with the Committee this year to determine how the problem might be addressed without the requirement for a substantial appropriation.

5. We pose the following two questions with respect to the future of the Participating Security program. First, is there a need for the program and the equity capital it provides to U.S. small businesses not generally supported by non-SBIC venture funds—whether with respect to size of investment required, or the industry of which the small business is a part, or its geographic location? Second, is there a structure that can be developed that will produce the

desired zero subsidy rate and still keep the program attractive to private investors who must lead with their capital commitments? We think the answer to both questions is "yes."

With respect to the first question, we hope to provide the Committee with a report by the end of March from the Amos Tuck School of Business Administration at Dartmouth College that we believe will be persuasive with respect to the "capital gap" faced by U.S. small businesses. We hope that the Committee will hold a hearing at that time to consider the very important question of the "need" for the Participating Security program. In addition to the report, we would be happy to suggest the names of several small business entrepreneurs who would be happy to testify concerning the importance of the program for their businesses.

With respect to the second question, we are hard at work designing a new proposed economic structure that would apply to Participating Security funds licensed after the date of its enactment. We would like to work collaboratively with the Administration, but if that is not to be, we will create the new model on our own. We will submit the new model to the Committee as soon as it is ready and, at that time, ask the Committee to consider its merits and request a scoring of the proposed structure for subsidy rate purposes.

6. In conclusion, I refer you to three documents attached to my testimony. The first is the September 9, 2004 letter from the National Venture Capital Association to the President outlining the unique and important role played by the Participating Security program in the universe of private equity. The second is a Participating Security program impact statement prepared by NASBIC that addresses many issues of importance to this Committee. It has been updated to include investments made thus far in FY 2005. The third is an example of data available on the "Equity Gap" faced by U.S. small businesses. We believe that the facts set forth in these documents, to be supplemented by others and validated by the Tuck School report provide a strong foundation that supports the continuing need for the Participating Security program. We look forward to working with the Committee during the months ahead to restructure the program in a manner that will meet that small business need while at the same time running at a true zero subsidy rate based on reasonable economic assumptions.

Thank you for your consideration of our views regarding the Administration's FY 2006 budget proposal for the SBIC program. I would be pleased to answer any questions you may have concerning those views on or regarding any other issues having to do with the SBIC program.

NVCA
National Venture Capital Association

September 9, 2004

President George W. Bush
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

We have recently learned that there is now a debate within the Administration concerning the economic justification or "need" for SBA's Participating Security SBIC program. NVCA believes strongly that this program fills a void which non-SBIC venture funds are unable to fill. We request that our views be taken into consideration when you formulate the Administration's final position on this issue.

NVCA is the only organization that represents the overall venture capital and private equity industries in the U.S. As such, we believe NVCA is uniquely qualified to address the "need" question relative to the SBIC program. As part of our mission we track the flows of venture capital throughout the country on an quarterly basis and publish our findings so that government and industry leaders can better understand and appreciate the critical role venture capital plays in U.S. job creation and economic growth. In addition, reports such as, "Venture Impact 2004," issued July 20, 2004 demonstrate that venture capital continues to play a critical role in encouraging growth of the U.S. economy and contributing to job growth and technical progress.

With that brief background, let me turn to the three reasons we believe there is a role that the SBIC program fills within the private equity universe for the Participating Security SBIC program:

1. First, Participating Security funds make equity investments in smaller increments than do the large majority of non-SBIC venture funds. This is of critical importance to very small companies, particularly those not in high-technology industries, which require equity financing rounds in the $1.0- to $5.0 million range. That range of investing is generally not attractive to major non-SBIC venture funds, but one that is critical to help grow the business to a level that will eventually attract the interest of non-SBIC funds.

2. Second, SBICs, including Participating Security funds, make investments in areas of the country that are generally not served by the large majority of non-SBIC venture funds. For example, companies in California and Massachusetts received 52% of all venture capital invested during the period FY 1994 – FY 2002. During the same period, SBIC's invested 71% of their capital in companies outside of California and Massachusetts. Since there is no way to tell in advance which small companies will grow to tomorrow's large public success stories or simply important regional employers, nurturing companies in all segments of the country is important.

3. Third, SBIC's support a much more diverse segment of small businesses than do non-SBIC venture funds. In recent years, non-SBIC funds have concentrated their

1655 North Fort Myer Drive • Suite 850 • Arlington, Virginia 22209 • 703 524 2549 • Fax 703.524 3940 • www.nvca.org

investments in the NAIC fast growing critical sectors of "Communications & Computers" and "Life Sciences." In contrast, SBIC's have invested approximately 50% of their funds in NAIC sectors "Manufacturing" and "Consumer Related." While there is overlap, it is clear that the SBIC program addresses the capital needs of many small businesses that are in industry sectors generally not attractive to non-SBIC funds.

In conclusion, the Participating Security program is a small but important part of America's overall capital structure. We urge the Administration to support continuation of the program and to work with all the program's stakeholders to secure the legislation necessary to achieve that result.

Thank you for your consideration of our views. We are available at your convenience to discuss the points made above or to address other issues the Administration believes are relevant to make a final decision on the future of the Participating Security SBIC program.

Sincerely,

Mark Heesen

Mark Heesen
President

cc: Hector Barreto
Joshua Bolten
Daniel Heath
Hon. Donald Manzullo
Hon. Olympia Snowe

David Coit February 17, 2005

NASBIC
America's Small Business Partners

The Impact Of The Participating Security SBIC Program

- Participating Security SBICs have invested $8.9 billion since the program's 1994 inception.
- Participating Security SBICs currently account for over 50% of all SBIC investments and are a major source of seed capital in the U.S. According to SBA, SBICs provided 64% of seed capital invested by institutional investors during FY'94 – FY'02.
- Approximately 35% ($3.1 billion) of $8.9 billion in Participating Security investments from FY'94 to date have been made in small U.S. manufacturing companies.
- Participating Security SBIC's were the most reliable source of equity capital for U.S. small businesses during the recession. All venture capital investments fell 83% between 2000 and 2003 according to Venture Economics. Participating Security investments during the same period—a total of $5.25 billion—fell just 23%
- Raising equity capital in the SBIC target range of $1.0- to $5.0 million is the most difficult for a small company to secure. The average VC "deal" size is between $7.0- and $10.0 million. The "Equity Gap" is real and an impediment to small business job creation.
- Non-SBIC venture capital is concentrated in a very few states. For FY'94 – FY'02, companies in California and Massachusetts received 52% of all venture capital. During the same period, SBIC's invested only 29% of their capital in companies in those states.
- The $8.9 billion in Participating Security investments since 1994 have led to the creation of an estimated 240,000 new jobs and $41 billion in portfolio company revenue. Sixty-two percent of that growth—148,000 jobs and $25.4 billion in portfolio company revenue—occurred during the recession recovery period of from the start of FY 2001 to date.

  (Estimate based on a 2001 National Venture Capital Association study that found that one sustainable job is created for every $36,000 in venture capital invested in a small business and every $1.00 in venture capital leads to $4.75 in portfolio company revenue.)
- Participating Security investments have resulted in approximately $8.7 billion in employee compensation per year.

  (Estimate based on 2001 average U.S. compensation of $36,214 per full-time job.)
- Participating Security investments have resulted in approximately $1.36 billion in income and social insurance taxes per year paid to the federal government.

  (Estimate based on an August 2003 Congressional Budget Office report that found the effective federal tax rate for middle quintile households in 2000 to be approximately 16%. The average effective tax rate for all quintiles was approximately 23%.)

National Association of Small Business Investment Companies
666 11th Street, NW • Suite 750 • Washington, DC 20001
Tel: 202-628-5055 • Fax 202-628-5080
www.nasbic.org

David Coit February 17, 2005

The Small Business Equity Gap

The following is taken from a November 2, 2004 article by Daniel Sandler of the University of Western Ontario titled Incentives and Angel Capital: Federal & State Incentive Review and Commentary."

Of the 500 fastest growing companies in the United States (the "Inc. 500") in 2002 (measured by revenue growth over five years), 41 percent started business with $10,000 or less and 14 percent started with less than $1,000. In contrast, only 22 percent started with more than $100,000. Only 2 percent of the 2002 Inc. 500 list received seed capital from venture capitalists.

The formal venture capital industry, comprised of professionally managed venture capital funds, tends to reject small deals because they are simply not worth the costs associated with their assessment and monitoring. Furthermore, as the size of private venture capital funds has increased, the size of the average investment per round of financing and, perhaps more important, the size of the average first-round investment, has increased significantly. Table 1.1 shows the size of first-round financing by industry group and overall in the formal venture capital industry over the period 1980 to 2003. ***While there has been some softening in recent years, the average first-round investment in the formal venture capital industry remains significant and has exacerbated the equity gap at the earliest stages of a business's development.*** [Emphasis added] As a consequence, government venture capital policy and programs often focus on angel financing generally as well as seed and start-up financing because early-stage financing has the potential to generate the greatest social returns through job creation and product innovation and because financing at these stages is not adequately addressed by the formal venture capital industry.

Table 1.1
Average First Round Investment 1980-2003

Industry Sector	**Average First Round Investment ($millions)**											
	1980	1985	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003
Communications	0.7	1.9	4.2	5.0	3.8	4.1	5.9	9.7	12.3	7.9	5.7	4.4
Computer Hardware and Services	1.1	1.5	2.8	3.0	3.9	3.5	4.4	7.3	8.5	5.7	6.6	4.9
Computer Software	0.9	1.3	2.1	2.6	2.7	3.1	3.6	4.8	7.0	5.6	4.1	4.4
Retailing and Media	0.6	2.2	3.3	4.8	4.8	3.6	5.5	6.1	7.8	4.4	4.2	6.2
Biotechnology	1.1	1.2	1.0	2.7	3.5	4.2	3.5	4.9	7.4	7.9	6.8	6.5
Healthcare Related	1.2	1.2	2.2	4.9	3.3	3.8	4.0	4.5	5.9	4.3	6.0	4.4
Semiconductors and Electronics	1.1	1.6	2.5	2.9	4.5	4.1	5.0	6.0	9.4	7.4	6.3	6.7
Industrial/Energy	1.4	1.5	1.9	6.2	3.8	4.0	10.2	9.7	8.9	6.4	7.8	6.0
Business/Financial	0.6	2.8	4.3	4.4	6.1	3.5	5.7	6.5	8.3	5.8	4.5	7.6
Overall	**1.1**	**1.7**	**2.5**	**4.1**	**3.8**	**3.7**	**5.1**	**6.5**	**8.6**	**6.3**	**5.5**	**5.3**

Source: Thomson Venture Economics, 2004 National Venture Capital Association Yearbook (Arlington, VA and New York, NY: Thomson Venture Economics, 2004), Figures 4.02, 4.11, 4.20, 4.29, 4.38, 4.47, 4.56, 4.65 and 4.74 for industry sectors; the overall figure is extrapolated from Figures 3.13 and 3.15.

David Coit February 17, 2005

Council on Competitiveness National Innovation Initiative Report
December 2004

The Council on Competitiveness (www.compete.org) was established in 1986 to address issues associated with the loss by the United States of its preeminent position in the world economy. Of particular concern to the founders was the decline in U.S. leadership in technology development and commercialization and the loss of market share to international competitors. To help meet this challenge, two-dozen industrial, university, and labor leaders joined together to create the Council to serve as a forum for elevating national competitiveness to the forefront of national consciousness. The Council's mission is to set an action agenda that drives economic growth and raises the standard of living for all Americans. The Council describes itself as the only national organization whose membership is comprised exclusively of CEOs, university presidents, and U.S. labor leaders.

In December 2004, the Council issued a report titled "Innovate America." Among the findings of the report related to the availability of risk capital are the following:

1. "Thousands of inventions lie dormant in the hands of universities, research centers and private companies. For those ideas that are pursued commercially, only seven out of every 1,000 business plans receive funding." (Page 33)

2. Entrepreneurs "lack risk capital ... [and] regions often lack the institutional ... mechanisms to direct existing capital assets to entrepreneurial activities." (Page 35)

3. "Recently, [the "funding gap'] has been widening as VC firms are shifting investments to focus on more mature firms with larger capital needs. Entrepreneurs report difficulty in raising money between $2 million and $5 million." (Page 36)

David M. Coit

David Coit is President of North Atlantic Capital in Portland, Maine. North Atlantic holds two Participating Security Small Business Investment Company (SBIC) licenses issued by the U.S. Small Business Administration and focuses on later-stage small business investment opportunities in the $2.0 million to $5.0 million range. Mr. Coit established North Atlantic Capital in 1986 and serves as the firm's Senior Managing Director.

Prior to forming North Atlantic Capital, Mr. Coit was president of Maine Capital Corporation, an SBIC also located in Portland, Maine. Prior to that, he had worked for six years as a commercial lending officer at the Bank of Boston, where his customers included several of the region's venture capital firms and many venture capital-backed companies.

Mr. Coit has served on the boards of directors of numerous portfolio companies during his 22 years in the private equity business. He has served as the President of the Northeastern Regional Association of Small Business Investment Companies and as Chairman of the National Association of Small Business Investment Companies. In addition, Mr. Coit has served on the board of the New England Venture Capital Association and the boards of several not-for-profit boards—including the Schepens Eye Research Institute (affiliated with Harvard Medical School), the Taft School, the University of Southern Maine Business School, and Bigelow Laboratories.

Mr. Coit graduated from Yale University with a BA in economics and received his MBA from the Harvard Business School. From 1970 to 1972, he served as an officer in the U.S. Navy.

Chair SNOWE. Thank you, very much.

Mr. Betancourt.

STATEMENT OF DANIEL BETANCOURT, MEMBER OF THE BOARD OF DIRECTORS FOR THE ASSOCIATION FOR ENTERPRISE OPPORTUNITY AND PRESIDENT AND CEO OF THE COMMUNITY FIRST FUND

Mr. BETANCOURT. Thank you, Senator Snowe.

Thank you for the opportunity to speak about the 2006 budget. I am Dan Betancourt, as you mentioned, and I work for Community First Fund and we are a microlender. We cover a 10-county area in Central Pennsylvania. We also have a Women's Business Center.

I also am a member of AEO, the Association for Enterprise Opportunity, and we have over 500 microenterprise organizations across the U.S., so I am wearing that hat today.

Obviously, we are not in agreement with the cuts in the Microlending program, the TA program, and the PRIME program.

I think that the Administrator, when he talked about the Community Express and other programs that were to reach the markets that we are talking about, obviously I strongly disagree with that and I am going to talk about that.

Just briefly, the areas of credit, the geography that that program covers, the market that it serves, the lack of startups, and those areas I am going to talk about briefly here.

In terms of the individuals that are not served, the private sector, the banks that is, the 7(a), and the Community Express are really unable to reach the borrowers that we talk about or that we try to reach. Specifically, 40 percent of the microlending loans, as you mentioned, come from rural areas; less than 6 percent are being serviced by the Community Express. These are facts.

In terms of the geography, the top Community Express lenders represent 72 percent of all Community Express loans. That it is obviously not reaching a lot of the areas of the country.

Senator, in your State alone, zero loans were done for Community Express in the last 5 years and about 260 Microloans were done in your State in the last 5 years, just for the record.

Chair SNOWE. Do you have those figures Nationally? Those are interesting figures to have state-by-state because that is very important.

Mr. BETANCOURT. About 21,000 loans were done, but we know that many of those loans, Community Express, were done on the East Coast and West Coast. There are a lot of areas of the country that are just not covered because the majority of those Community Express loans were done by 72 percent—72 percent of the Community Express loans were done by just a few lenders. That is a fact.

Credit is another issue that the Microloan program really does a nice job at. Many of our clients have credit scores of less than 550. You will not even get a mortgage, in many cases, a conventional mortgage, if you have less than 600. So I think the Community Express Program states itself, in its literature, if you have bad credit you do not qualify for the loan. It is just very difficult.

And the reason for that, and I think if you look at the Microloan program, is the technical assistance portion. We spend a lot of time, a lot of hands-on. We do have some folks that have bankruptcy and some difficulty, but we help them get back on track.

The other thing is the default rate is less than 1 percent. How does that work? It is all the time that we spend with them.

As already mentioned, our startups in terms of Microloans, over 40 percent of our clients are startups whereas less than 25 percent from the Community Express are startups. In fact, it is commonly known that you need at least 1 year in terms of Community Express. At least about 40 percent of our borrowers do not even have a year. Again, helping them with their business plan and doing all those extra things to get on track.

Demographically, 50 percent of our clients are people of color, 60 percent are women. In urban areas, over 90 percent, at least in Community First Fund's case, are people of color.

I do want to introduce two entrepreneurs here today. The first one is Terry Wade. Terry runs a personal care business. Very briefly about Terry, she actually did apply for Community Express recently after receiving at least one Microloan and was turned down. I do have a letter indicating that; and this is not uncommon. We have many micro borrowers coming back. We are the minor leagues. We are preparing these borrowers. Eventually we think they will get there, but they are just not there yet. Terry is doing a nice job in her business. Thank you, Terry.

Also, I do want to introduce Kekelwa Dall. She runs a health care business and is also a Microloan borrower. Thank you, Kekelwa.

These are just two examples of the many, many, many borrowers.

Chair SNOWE. I noticed they are women-owned, too.

Mr. BETANCOURT. I just want to say finally, that we hope that you will help us preserve the Microloan program, the $20 million, the $17 million for the TA—which is very important—and the $5 million for PRIME. I just want to note that the PRIME, we are only able to use that program in 16 States. It was eliminated in many of the States, just so you know.

Thank you.

[The prepared statement of Mr. Betancourt follows:]

ASSOCIATION FOR ENTERPRISE OPPORTUNITY

February 14, 2005

Senate Committee on Small Business and Entrepreneurship
Russell Senate Office Building, Room 428-A
Washington, D.C. 20510

Chairman Snowe, Ranking Member Kerry and other Members of the Committee:

On behalf of the Association for Enterprise Opportunity (AEO) and the Community First Fund, thank you for the opportunity to present testimony to the Small Business Committee regarding the Administration's FY 2006 Budget Proposal. My name is Daniel Betancourt, and I am President and CEO of the Community First Fund in Pennsylvania. Community First Fund's mission is to drive community and economic development in the 10 counties that we service, and we are also an SBA Microloan Intermediary. However, I am here today not only on behalf of microenterprise development in Pennsylvania, but also in my capacity as a Board member for AEO.

AEO is the national trade and membership association for microenterprise development in the United States, with nearly 500 member organizations nationwide. The vast majority of AEO's membership consists of microenterprise practitioner agencies, including over half of all Microloan Intermediaries and PRIME grantees. As you know the SBA Microloan and SBA PRIME programs have both been recommended for elimination in the FY 2006 Budget Proposal. In addition, SBA has proposed cuts of $500,000 to the Women's Business Center (WBC) program. **In light of the continuing business assistance needs of low- and moderate-income entrepreneurs, AEO respectfully requests that the Small Business Committee include the SBA Microloan, PRIME and WBC programs in its Budget Views & Estimates at $20 million in lending capital for the SBA Microloan Program, $17 million for SBA Microloan Technical Assistance, $5 million for the SBA PRIME Program, and $16.5 million for Women's Business Centers. More importantly we would like for the Small Business Committee to work to ensure that these vital programs are funded in the FY 2006 appropriations process at the levels specified in this testimony.**

The Administration's proposed elimination of the SBA Microloan and PRIME Programs threatens to wipe out two essential federal funding sources for microenterprise development in the U.S., effectively terminating the only available sources of business assistance for thousands of underserved entrepreneurs across the country. **The fact is that these entrepreneurs are not served by the private sector, nor do they qualify to receive SBA guaranteed loans like 7(a) or Community Express.**

The SBA Microloan Program
The SBA Microloan Program, the single largest source of funding for microenterprise development in the nation, was created in 1992 to help small business owners in need of small amounts of capital (less than $35,000) that are not yet "bankable" in the private sector

National Office: 1601 North Kent Street, Suite 1101, Arlington, Virginia 22209
Phone 703.841.7760 Fax 703.841.7748 Email aeo@assoceo.org
Satellite Offices: Atlanta, GA • Chicago, IL • Iowa City, IA
www.microenterpriseworks.org

lending community. Since 1992, SBA Microloan Intermediaries have made over 21,000 Microloans totaling more than $250 million, primarily to women, minority, and low-income entrepreneurs. In FY2004, Intermediaries made 2,425 loans, totaling $32,955,487. **In addition, over 40% of Microloans are made to rural microenterprises.**

The Administration contends that banks will now lend to Microloan borrowers through the 7(a) Community Express Program, which is just not the case. Microloan borrowers often have FICO credit scores as low as 550, past credit problems, little or no collateral, and lack business experience. **Traditional banks will simply not lend to these borrowers, with or without a SBA guarantee.** Also, it is important to note that over 40% of SBA Microloans go to start-ups while 7(a) loan guarantees require that individuals already be in business anywhere from 1 to 3 years.

Despite lending to the riskiest borrowers, the Microloan Program has experienced a default rate of less than 1%. This accomplishment can be primarily attributed to the countless hours of intensive technical assistance that Intermediaries provide to Microloan borrowers. The technical assistance acts as a driver for business success and greatly improves the chances for successful business repayment.

The SBA PRIME Program

PRIME is the only federal microenterprise program that provides intensive training and technical assistance to low-and very low- income entrepreneurs. For many entrepreneurs, lack of access to capital is only one of the barriers to starting or growing a successful small business. PRIME provides grants to microenterprise organizations throughout the country to offer this invaluable assistance. In addition, PRIME is unique in that at least 50% of all grant award dollars must be used to provide these services to very low-income individuals.

The Administration has proposed the elimination of the PRIME Program for the past five years. However, Congress has continued to fund PRIME each year and in doing so has recognized that by investing in very low-income entrepreneurs, the program succeeds in creating jobs and income in communities that need it most. **PRIME is just that—an investment. PRIME clients create and retain jobs, move off of public assistance and pay increased taxes as their businesses and incomes grow.**

The SBA Women's Business Center Program

The Women's Business Centers (WBC) of the Office of Women's Business Ownership provide training and technical assistance to women starting or expanding their businesses. In 2003 alone, Women's Business Centers across the country trained and counseled over 104,000 women in core business areas such as marketing, bookkeeping and finance. The Centers serve an invaluable role in meeting the special needs of female entrepreneurs across the country.

America's 9.1 million women-owned businesses employ 27.5 million people and contribute $3.6 trillion to the economy. However, women continue to face unique obstacles in the world of business and greatly need the specialized services that Women's Business Centers provide.

Chair SNOWE. Thank you.

John Massaua, welcome.

STATEMENT OF JOHN R. MASSAUA, STATE DIRECTOR OF THE MAINE SMALL BUSINESS DEVELOPMENT CENTER AND A MEMBER OF THE BOARD OF DIRECTORS FOR THE ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

Mr. MASSAUA. Thank you.

I speak today on behalf of not only the Maine Small Business Development Centers, but also the 63 State, regional and territorial SBDCs.

With me here today is Don Wilson, President of the ASBDC and Jody Keenan, the State Director for the Virginia SBDC.

Madame Chair, I provided to the Committee 22 pages of written testimony, but frankly it boils down to this. Let me get right to the point. The SBDC program is in severe financial stress, especially in the big flat States like Maine. Unless an appropriation of $109 million can be achieved, which essentially brings the program to 1998 level dollars, more downsizing will take place and SBDCs capacity will continue to diminish.

For example, in Maine, we will need to lay off two counselors, 18 percent of our capacity. And in Massachusetts, three counselors will be laid off and a center director's position, currently open, will remain vacant.

For the first time last fiscal year, SBDC counseling hours Nationally declined by some 94,000 hours or 6 percent. This is a trend that is beginning to show within reasonable expectancy that the SBA goal has for us is impossible to meet.

We must act upon this if we are to continue helping small businesses in Maine and across the country. $109 million lets us get even with 1998 in Maine. It will increase our funding only by $100,000, not even enough to maintain the two counselors. We will probably lose one even if we do get the $109 million unless we are able to find some other sources.

In the States that lost a percentage of population because of the census, they will get back only to 2001 dollars with a $109-million appropriation.

Demand for SBDC services continue to rise. The SBDCs, despite reduced capacity, serviced 6 percent more clients in 2004 than in 2003, but with less hours per client, which if you ask any counselor in Maine suggest less of a chance for the client to succeed. It takes seven to 15 hours to service a client to have a chance for success. And if it is a tech-based company, it takes 30 to 50 hours to service that client.

We cannot be the revolving door for the SBA. We need to be able to serve all of our clients properly, like the 40 percent who are women-owned nationally—47 percent in Maine—the 31 percent who are African-American, Hispanic and Asian-American and the over 9 percent who are veterans nationally—12 percent in Maine.

The principles of reasonable expectancy dictate the law of diminishing returns. We are at the fulcrum point. We cannot get blood from a stone. If we are to succeed we must add more funds into the SBDC program.

Madame Chair, this SBA budget is essentially abandoning rural America. And for that matter, the inner cities of America. The budget proposed and many of the programs it seeks to eliminate are going to cause that. As Mark Lapping from USM's Muskie Schools would put it, they—the Government—are making rural and inner city America peripheral to the mainstream.

In Maine we have the fastest growing rate of poverty, along with Arkansas and Mississippi. Our per capita income is 9 percent below that of the United States and 25 percent below New England as a region. We are faced with the prospects of two base closings and the potential downsizing of Bath Ironworks. Who is going to help these folks if that happens? Who will provide the leadership, the advocacy and the service to Maine to build entrepreneurship's business that enabled five out of 100 to be significant in size to replace the job loss that continues in Maine and across America, especially manufacturing?

The fact is that despite the supposedly positive economic numbers, we still are short 700,000 jobs in the private sector.

Madame Chair, there is so much I want to say, but I am constrained by the time. We need the Microloan program to help those who find access to capital the most difficult. Do not be fooled by SBA's characterization that it can be replaced by Community Express. Community Express is merely a credit card program and we know how bad credit cards are for small businesses, as counselors.

We need to fund the FAST program again so we can engage small business in the future with meaningful tech commercialization. We need to put a stop to the SBA's attempts to break a program that is not broke by their desire to recompete SBDCs and take them away from university-based programming.

We need to work on creative ways to help the Women's Business Center program in order to be able to assist them in growing that program, not downsize it in the method that they want to do it.

And we need the $109 million, and I know it is a tough budget year and tough decisions have to be faced. But I suggest the first place to look is to get part of the $109 million out of the SBA's budget because they use almost $16 million to manage the current $88 million program. As a professional manager, if I had to use 18 percent to manage my program, I would probably get my head cut off.

Finally, I would like to remind Madame Chair that an independent study has verified for the last studied year, 2002, SBDC returned to the Federal Treasury $211 million for the investment Congress made in the SBDC program. That is about 2.5 times return on investment, a number Bill Gates or Warren Buffet, or even the Office of Management and Budget, could only wish for in their dreams.

Thank you, Madame Chair.

[The prepared statement of Mr. Massaua follows:]

STATEMENT OF JOHN R. MASSAUA, STATE DIRECTOR, MAINE SMALL BUSINESS DEVELOPMENT CENTERS AND BOARD MEMBER, ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

Chairperson Snowe, Ranking Member Kerry, and Members of the Senate Committee on Small Business and Entrepreneurship; I am John Massaua, State Director for the Maine Small Business Development Centers, an SBA partnership program with the State of Maine and other stakeholders, contractors and allies, administered by and at the—University of Southern Maine. I also serve on the Board of Directors of the Association of Small Business Development Centers (ASBDC). The Maine SBDC has 11 Service Centers and 25 Outreach Offices throughout the State of Maine. ASBDC's members are the sixty-three State, Regional and Territorial Small Business Development Center programs comprising America's Small Business Development Center Network. SBDC programs are located in all fifty-states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam and American Samoa. The SBDC network is the Federal Government's largest small business management and technical-assistance program with over 1,000 service centers nationwide serving more clients than all other Federal management and technical assistance programs combined.

Madame Chair, I would like to thank you and the Senate Small Business Committee on behalf of ASBDC, and the nearly 6,000 dedicated men and women who are a part of America's Small Business Development Center Network, for inviting me to testify at this important hearing on the Administration's fiscal year 2006 budget for the U.S. Small Business Administration. With me today is Donald Wilson, President of the Association of Small Business Development Centers. We commend the committee, Madame Chair, for holding a formal public hearing on the Administrations budget request for the SBA for fiscal year 2006. It is important to look at the Administrations budget figures for the SBA in light of the current economy and the needs of the small business sector. We should also look at those numbers in light of historical trends in budget support for the small business sector of the nations economy.

I would also like to take a moment Madame Chair to thank you, Ranking Member Kerry and the members of this committee for all of your efforts on behalf of small business throughout the 108th Congress. In particular Madame Chair, we would like to thank you and Ranking Member Kerry for your efforts along with your counterparts in the House for the role you all played in securing passage of the SBA reauthorization bill in the last days of the 108th Congress. We are deeply grateful for including in that important legislation the long needed confidentiality protections for SBDC clients nationwide.

We would also like to thank you Madame Chair for your and Senator Kerry's efforts to try and stabilize the SBA's 7(a) loan program. The agreement worked out will apparently avoid a repeat of the catastrophe that occurred in December 2003 when SBA effectively shut down the 7(a) program.

On a personal note, I want to thank you Madame Chair for your participation at home, in Maine, in understanding and advocating for small business, especially at the recent opening pf the joint Eastern Maine Community College—Maine SBDC Business Resource Center in Bangor. We were particularly delighted with your public comments about the importance and impact of the Maine SBDC in the context of the same for the entire national network. Thank you.

I would like at this time to direct the Committee's attention to the state of the nations and in particular Maine's economy, the Administrations proposed SBA budget for fiscal year 2006, and the contribution of the nations small business sector to our overall economy. I will then focus my remaining remarks on the Administrations proposed funding for the SBDC national program and proposed 2005 legislation by the SBA.

The Bureau of Economic Analysis at the Department of Commerce reported late last month that the nations Real Gross Domestic Product increased by 4.4 percent in 2004. This compared to a 3 percent increase in 2003. It was also the best increase since 1999. However, the fourth quarter increase was at an annualized rate of 3.1 percent. This was the smallest quarterly increase all year and the lowest since the first quarter of 2003. We are grateful that the economy has continued to expand for the third year in a row. Congress needs to allocate Federal resources in such a way as to maximize the chances of keeping the current expansion going.

The Federal Government must allocate resources in a way that will help insure that we increase the number of job opportunities for those being laid off as many large corporations continue to downsize and as corporate mergers increase. December 2004 was the busiest December in history for mergers and acquisitions, according to Thomson Financial. We need look no further than the merger of SBC and AT&T or Gillette and Procter and Gamble to see the impact that corporate mergers have on jobs as already evidenced in Maine by the creation through merger of Unum/Provident. The P & G/Gillette merger is expected to result in a loss of 6,000 jobs. The merger of SBC and AT&T is expected to result in the loss of 13,000 jobs. And we are not expected to know for a while what the job losses will be from the merger of Sears and Kmart or Citicorp and J. P. Morgan. We can be relatively confident that the layoffs will be substantial. And it is not just mergers that are resulting in substantial job loss. In mid-December, Delphi, the nations largest auto parts maker announced it was cutting 3,000 U.S. jobs. Who will create the new jobs to compensate for the job losses I have just described? We will look to small businesses for new job creation just as we have for the last decade or more. The question is, will there be enough new small businesses being formed and existing small businesses expanding to generate the nearly 160,000 new jobs we need every month simply to provide jobs for new workers seeking to enter the workforce? That will depend in part on whether the government modifies the discouraging and counterproductive downward trend in the real level of resources as well as the downward trend in the percentage of Federal resources allocated to assist small businesses.

Correspondingly in Maine, economic conditions continue to be stressed as the legacy pulp and paper, timber, textile and shoe industries continue to decline rapidly. The threat of downsizing of Bath Iron Works and the possible closure of navy bases in Brunswick and Portsmouth loom large for the future of Maine's economy. 4.7 percent of Maine's workforce remains unemployed, a seasonally adjusted near constant statistic for all of calendar 2004. This relatively flat employment level overall masks a well-known trend that over the past 4 years, Maine has lost over 17,000 manufacturing jobs. In two of our State's poorest counties, Piscataquis and Washington, employment declined by 1 percent, scary when one considers their 2004 average unemployment rates equaled 6.5 percent and 8.6 percent, respectively. Additionally, Maine's Per Capita Income varies widely from approximately $24,000 in Piscataquis County to approximately $35,000 in Cumberland County, well below regional levels by 25 percent and 8 to 9 percent below the U.S. across all states.

Notwithstanding a relatively flat unemployment rate, Maine is an impoverished state, no stranger to poverty, especially in sparsely populated counties. For generations, families have survived by working the land, fishing and lobstering, and laboring in factories and mills. According to the *Portland Press Herald*, steady job losses, persistent population drops and factory closings have made it tougher for families in many Maine towns to survive. Maine leads the country with the fastest growing poverty rate, tied with Arkansas and Mississippi; poverty-related enrollment in Medicaid rose from 24,100 to 48,400 from 1997 to 2002, with the biggest jump from 2000 to 2001, when enrollment doubled, according to the Kaiser Family Foundation; Federal dollars for rural rental assistance have declined as need rises: in 1993, Maine received $22.7 million and in 2002, $17.9 million. Federal dollars for rural home construction fell during the same time period, as did Federal spending on Section 8 vouchers, another source for rental assistance, and many of the state's Section 8 housing vouchers—a primary source of rental assistance for poor people—were frozen for most of 2003, because of overwhelming demand, according to housing officials; the Maine State Housing Authority turned away hundreds of families needing help to pay rent; communities in sparsely populated counties are as well struggling to keep their professionals, dentists, and doctors: for example, 4,000 people remain on a waiting list at Penobscot Community Health Center to see a dentist. Since 1993, credit outstanding as a percent of disposable income has risen sharply from 15 percent to well over 21 percent. Not surprisingly, bankruptcy filings have also surged. Growth in installment credit has outpaced income growth in 8 of 10 years. And in addition to bankruptcy filings, another indicator of the number of people in Maine who are living on the edge is the number of people on food stamps; this figure has been growing since 2000 and is now near 1993's (last recession) peak.

The need for Maine to look to a vision of small business and entrepreneurship has never been greater. As well for our nation, the troubles in Maine—rising poverty and persistent job loss—mirror a national trend spreading across the Great Plains, Appalachia, Wyoming and other states with sprawling tracts of undeveloped land far from metropolitan areas. "It's important to understand what Maine is witnessing, clearly other places are experiencing," according to Mark Lapping, a professor of planning and community development at our University of Southern Maine's Muskie School of Public Service. Maine, along with other rural states, suffers from neglect. "The economy and much of society has made rural America peripheral to the mainstream," Lapping asserts. "Government and the business world are increasingly discounting families and businesses" in rural areas, "considering them not necessary."

However, notwithstanding Lapping's observation, increasingly small business and entrepreneurship are being seen as solutions to Maine and others' economic difficulties. There is growing understanding that economic development strategies founded primarily on business recruitment are not in rural America's best interests and that there needs to be a greater emphasis on homegrown development, according to a 2004 jointly published report from the W. K. Kellogg Foundation and the Corporation for Enterprise Development. The report points out that many observers see entrepreneurship as being a critical, if not major piece of rural economic development and that there is a compelling argument that creating an entrepreneurial climate where all kinds -of entrepreneurs can succeed, lays the groundwork for the five out of 100 small businesses that evolve into the fast-growing drivers of the national economy. The report goes on to say that entrepreneur-focused: systems thinking is required to align the plethora of training, technical assistance, and financing programs to meet the variety of needs of entrepreneurs and their different levels of education, skills, and maturity. Thinking, as Madame Chair and the Committee knows, that has been led by America's Small Business Development Center Network for the past twenty-five years.

It seems it's just not rural entrepreneurship that is important, fostering the creation of entry-level businesses . . . is crucial to the revitalization of poor, urban neighborhoods, according to a study issued by the Center for Urban Entrepreneurship (CUE) at the Pioneer Institute for Public Policy Research. The Institute points out that businesses started by inner-city residents tend to have a more lasting commitment to their communities. Moreover, as these businesses grow, they are more likely to hire local residents and spur further local business development. CUE asserts business ownership can also be a path to wealth creation for low-income individuals and their families; it can enable residents of distressed urban areas to share in the benefits of revitalization, rather than become victims of gentrification: Who will help these rural and inner-city businesses grow but for a proven network of technical assistance service providers, America's Small Business Development Center Network, given the proper resources?

Now, taking a serious look at the nations overall jobs picture, 2004 was the first year since 1999 that saw job growth in every single month, and it was also the first year since 2000 that the jobless rate declined. The nations unemployment rate in January of 2004 was 5.6 percent. The jobless rate last month fell to 5.2 percent. On the surface, that would be very encouraging news. However, it would appear that the decline in the unemployment rate was primarily due to a fall in the Labor Force Participation Rate (LFPR) from 66.0 percent to 65.8 percent. This represents the lowest Labor Force Participation Rate since May 1988. The LFPR is currently 1.5 percentage points below its most recent peak of 67.3 percent achieved in April 2000. In other words, the unemployment rate declined last month because hundreds of thousands of Americans, gave up looking for work in January. Specifically, unemployment fell because the labor force fell by 224,000, while employment grew by only 85,000.

The number of jobs created since the last recession ended in November 2001 has been the lowest of any economic recovery in the United States since World War II. The total number of jobs in the economy last month was only 62,000 more than existed in March of 2001. Currently private sector employment remains approximately 700,000 jobs *below* what it was in March 2001. Government entities may be creating new jobs but the private sector is not. Private sector employment in January was 0.6 percent below what it was 46 months ago. This is a particularly disturbing statistic. Overall, we have fewer people employed today than the President's Council of Economic Advisors predicted in January of 2002 that the Nation would have in January of 2003.

Clearly, this has been an unusual recovery. Virtually every prediction in recent years relating to job growth has been missed. When the President's tax package was approved, the Council of Economic Advisors (CEA) projected 5.5 million new jobs would be created from July 2003 through the end of 2004. As of December 31 of 2004, it became apparent that those projections would fall short by nearly 3 million jobs. Fortunately, 2.2 million jobs were added during this past year, thereby bringing the year-end employment levels to 132.3 million employed.

In January, manufacturing employment, (which we know is of particular concern to you Madame Chair in your capacity as Co-Chair of the Senate Manufacturing Taskforce) declined by 25,000 jobs. That is the fifth consecutive monthly decline in factory jobs. From March 1 through August of 2004 the economy created 85,000 new manufacturing, jobs. From September 1,2004 to February 1, 2005 the manufacturing sector has lost 61,000 jobs.

This loss of manufacturing jobs is taking its toll on the Maine's economy. Like the U.S., Global markets have battered Maine, but even more so. By the early 1990's, Maine's decline in manufacturing employment started accelerating. While the U.S. has lost 25–30 percent of its manufacturing jobs from peak to trough, Maine has lost closer to 50 percent. This is of particular concern because it hits Maine's rural areas the hardest as these rural places have the highest concentration and dependence on industrial jobs. York and Sagadahoc are also vulnerable, particularly with the BRAC process restarting. As Maine loses manufacturing jobs, they are being replaced by lower paying jobs with fewer benefits. The percent of jobs in

Maine that pay a livable wage has been stuck at approximately 66 percent for 8 years; far below Maine's desired benchmark of 85 percent.

The national economic data which we have seen coming from the Department of Commerce and the Department of Labor continue to give mixed signals about the future of the economy, as well those from the Maine State Planning Office. We are relatively confident that the overall economy will continue to expand throughout fiscal year 2005 but at a slower pace than in fiscal year 2004. The real economic issue that faces us all is job creation. Can this economy produce the number of jobs necessary to provide older Americans caught by downsizing and young Americans graduating from high school and college with the employment opportunities they must have to provide for themselves and their families? Can we create enough jobs to ensure that consumer spending will continue to drive economic growth? What will be the impact of higher interest rates on housing starts, consumer spending and in turn job creation?

The robust growth of 2004 is not likely to be repeated. Consumer spending will likely be unable to continue to fuel growth if inflation increases, wages remain relatively stagnant, and energy prices increase. Private sector job creation will be uncertain if we do not pay more attention to the well-being of our nations small businesses. One measure of whether we are paying attention is resource allocation. Resources for SBA have declined roughly 40 percent since 2000. This budget continues that downward spiral. ASBDC believes the economy has paid a price over the last 4 years as resources for management and technical assistance to small business owners and aspiring entrepreneurs has declined, certainly in real dollar terms.

Administrator Barreto has done what he could with what he has. Nevertheless, his field staff is strained, his resource partners are strained and small business owners are not getting the depth of service and adequate access to services that they need and deserve in light of the fact that over 40 percent of Treasury receipts come from small businesses.

Neither the SBDC national network nor I is unmindful of what is occurring in the world and the responsibilities throughout the world that our Nation is trying to meet. We recognize that we are fighting a worldwide war against terrorism and that we are engaged in Nation building in Iraq, and Afghanistan. We fully appreciate that Nation building does not come cheap and that we must provide for our troops abroad.

We understand that to meet these new worldwide obligations requires resources. That is why we have voiced concern about the lag time of this recovery in comparison to earlier post recession recoveries, the slow growth in business startups and the slow growth in employment. These factors have contributed to a decline in Treasury receipts in 3 of the last 4 years. If there is not robust activity in the entrepreneurial sector, job creation will suffer, consumers will have less to spend, government will spend more on public assistance programs and we will have to borrow more to meet our obligations as we have for the past 4 years.

We are concerned that continued erosion of overall SBA resources is having an adverse impact on the small business sector of the economy. The key to lowering the deficit is economic growth stimulated by entrepreneurial activity and job formation. We cannot expect to stimulate job growth if we do not assist small businesses that are struggling to survive or grow. And I hope we will always be mindful that small businesses create roughly 70 percent of the new jobs in our economy and 53 percent of our nations Gross Domestic Product.

As to the specific recommended funding for the SBDC program, I am sure there was a collective sigh of relief at every SBDC nationwide when it was learned that the President's budget recommended $88 million for the SBDC program for fiscal year 2006. We would appear ungrateful if we did not acknowledge that, in actual dollar terms, the SBDC program has been recommended for the same level of funding that the White House proposed last year. And that recommendation comes at a time when hundreds of programs are being eliminated or are being cut. And we are, indeed, grateful.

However, this committee and your colleagues in the Senate and House should understand that years of level funding are gnawing at the very marrow of the SBDC national program, seriously impacting its ability to help the 23 million small businesses in this country, whether they are manufacturing concerns with 500 employees or a mother operating a home-based business to help her family get by.

And our government's obligations abroad in terms of Nation building and in terms of the war on terror are creating major problems for thousands of small businesses here at home. When our Nation sends National Guard and Reserve Units abroad, as it understandably must do, it is sending abroad many owners and key employees of small businesses. What do we say to the men and women who return after serving in uniform in Iraq and Afghanistan to find the business they owned or the business that employed them no longer open for business? Additional resources are desperately needed to enable SBDCs to assist small businesses impacted by the call up of owners and key employees to active duty service in the Guard and Reserve.

And where are the SBDC resources to assist the tens of thousands of new immigrants particularly in the Hispanic community who are seeking to start a new business so that they too can enjoy the American dream?

I mentioned earlier the growing number of jobs lost to downsizing and mergers. These realities in the economy have resulted in an ever-increasing number of Americans over 50 in the unemployment lines. A recent article in USA Today focused on new research that shows 5.6 million workers age 50 and older are now self-employed, a 23 percent jump from 1990. As a result of corporate downsizing and mergers, tens of thousands of workers over 50 have faced loss of employment in recent years. Many of these workers, after months of unsuccessfully searching for new employment, turn to self-employment. And where are they to find the necessary training to develop the wide range of skills required to run a small business successfully? Many of them are turning to their local SBDC. Where are the resources to enable SBDCs to serve what the Rand Corporations research for the AARP says will be an ever-increasing number of baby boomers turning to self-employment to sustain their families in 2005, 2006 and beyond?

Dr. Graham at the Office of Information and Regulatory Affairs at the White House and Small Business Advocate Tom Sullivan are doing a remarkable job in their efforts to slow the ever-growing regulatory burden on America's small businesses. Their efforts have resulted in billions in regulatory compliance cost savings. But the number of new regulations grew substantially in 2003 and 2004. Where are the resources needed to enable SBDCs to assist millions of small businesses, your constituents, who are struggling to understand and comply with the ever-growing regulatory burden on small businesses?

Recognizing your concerns Madame Chair with the State of manufacturing in the U.S., ASBDC commissioned Dr. James Chrisman of Mississippi State University last summer to analyze the impact of SBDC services on SBDC long-term counseling clients who were manufacturers. Dr. Chrisman completed that study in September of 2004. Dr. Chrisman estimates that SBDC long-term counseling clients who received services in 2002 generated 9,251 new jobs during 2002 and 2003. Based on client assessments, Dr. Chrisman estimates that as a result of SBDCS counseling, 185,321 manufacturing jobs were saved in 2002 and 2003. Dr. Chrisman further estimates that SBDC 2002 long-term counseling clients who were manufacturers generated an increase in tax revenues of $58 million of which $34.8 million went into the Federal Treasury. And those manufacturing firms who received long-term counseling represented a little less than 12 per cent of SBDC long-term counseling clients in 2002. With the continued difficulties facing American manufacturing, where are the additional resources that SBDCS will need to address the growing needs of our nation's small manufacturers?

The more comprehensive 2004 economic impact study of all SBDC long-term counseling clients conducted by Dr. Chrisman, reported that SBDC long-term counseling clients generated 56,258 new jobs in 2003 as compared to 46,688 new jobs created by SBDC long-term counseling clients in 2001. The 2004 Chrisman Study also reported that an additional 59,489 jobs were saved in 2003 as a result of SBDC long-term counseling compared to 34,215 jobs saved in 2001. The 2004 Chrisman Study reveals that the average change of employment rate for SBDC established business clients was a positive 10.2 percent—over twenty-five times the rate of the average U.S. business. The average change in sales for an SBDC long-term counseling client was 17 percent compared to 2 percent for the average U.S. firm. Nearly 53 percent of SBDC pre-venture clients who received long-term counseling (five hours or more) during 2002, actually started new businesses during 2002 and 2003.

The same Chrisman Study points out in Maine:

• A job is created or saved by Maine SBDC business assisted clients every . . . 9 hours.

• $10,000 in new sales are generated by Maine SBDC business assisted clients every . . . 64 minutes.

• $25,000 in financing is obtained by Maine SBDC business assisted clients every . . . 17 hours.

Existing business owners score Maine SBDC Counselors 4.3 out of 5 on knowledge and expertise.

• 92.1 percent of existing business owners would recommend Maine SBDC services to other business owners.

Despite the positive numbers reported by Chrisman, there is one very disturbing piece of data in the most recent SBDC productivity numbers. For the first time in recent years the average hours per counseling client declined as overall counseling hours declined. This decline in the overall number of counseling hours occurred in the face of an increase in the overall number of counseling clients. We believe this is primarily due to the fact that the SBDC national network has experienced a reduction in the number of counselors available nationwide to serve an expanding number of clients seeking counseling services. The reduction in available counselors is clearly due to a decline in available Federal financial resources in actual and real dollar terms in recent years.

For example, SBDC programs in low population states such as Madame Chair's State of Maine, Senator Enzi's State of Wyoming, Senator Burns' State of Montana, or Senator Thune's State of South Dakota (which get base grants of $500,000) have had no increase in Federal funding since 1998. Inflation alone has eroded their ability to serve their state's small businesses. To have the purchasing power that they had in fiscal year 1998, low population states would each need grants of $603,000 in fiscal year 2006.

SBDCs in many larger population states experienced severe cuts as a result of the 2000 census. Many of these states now have some of the highest unemployment levels in the nation. Madame Chair, the SBDC program in Senator Bond's State of Missouri under the President's recently proposed fiscal year 2006 budget would receive $61,000 less in actual dollars in fiscal year 2006 than it did in fiscal year 2001. The SBDC program in Senator Kerry's State of Massachusetts would receive $132,000 less in fiscal year 2006 than it did in fiscal year 2001. The SBDC program in Senator Bayh's State of Indiana would receive $60,000 less in fiscal year 2006 than it did in fiscal year 2001. The SBDC program in Senator Levin's State of Michigan would receive nearly $130,000 less in fiscal year 2006 than it did in fiscal year 2001, Senator Vitter and Senator Landrieu's State of Louisiana would receive $91,000 less in fiscal year 2006 than it did in fiscal year 2001, Senator Coleman's State of Minnesota would receive $13,000 less in fiscal year 2006 than it did in fiscal year 2001 and Senator Lieberman's State of Connecticut would receive $100,000 less in fiscal year 2006 than it did in fiscal year 2001 and Senator Pryor's State of Arkansas would receive $42,000 less in fiscal year 2006 than it did in fiscal year 2001. And these numbers reflect actual dollars with no adjustment for inflation.

To provide SBDCs in low population states with sufficient funds to restore their purchasing power to fiscal year 1998 levels and to restore states impacted by the census to the actual funding levels of fiscal year 2001 would require an appropriation for SBDCs in fiscal year 2006 of $109 million, still well below the programs authorized level of $135 million. Madame Chair, Senator Kerry, Honorable Members of the Committee, on behalf of America's small businesses, we respectfully ask for an appropriation of $109 million for the SBDC program.

If that level of appropriation cannot be accommodated, then no one on this committee should be surprised when SBDC counselors in their State are laid off or service centers are closed. And no one should be surprised when counseling hours per client decline again in fiscal year 2006. Reduced hours per client results in reduced economic impact. And many of our counselors believe that maximum economic impact is attained when clients receive between 5 and 12 hours of counseling. It is impossible for the SBDC program to give an increasing number of clients the attention they need and deserve with the level of decline in resources that has occurred since 1998 as I have outlined above.

Think of this decline in hours of consulting per client in terms of your own health care. What if you were experiencing a variety of concerning health symptoms and went to your family practitioner or internist seeking medical attention? Suppose the doctor came into the examining room, looked at you briefly without a meaningful discussion with you of your symptoms, without ascertaining whether you were running a fever, without checking your blood pressure, without a urinalysis or blood test and then prescribed a treatment regimen. I seriously question whether you would make a return visit to that particular physician or have any confidence that his or her prescribed regimen would do much to improve your health. That is the type of reduced service and response that many SBDC clients may have to expect in the future if demand for SBDC services continues to increase and resources continue to decline. And when the quality of services declines, the beneficial economic impact of our consulting services, that is increased client sales, increased job creation and increased revenues to State and Federal treasuries will likely decline.

Madame Chair, in Maine this year, we would have had to reduce staff if it were not for a State assisted CDBG allocation of some 200K that enabled our SBDC to maintain level staffing. The prospect of a CDBG grant for next year is slim to none and we are staring in the face of an 18 percent reduction of counseling staff, come next January, should we not get the resources needed.

The latest SBA figures for the SBDC national program show that SBDC counseling cases and training attendees combined increased from 685,000 in fiscal year

2003 to nearly 726,000 in fiscal year 2004. Training attendees increased from 408,000 in 2003 to nearly 446,000 in 2004. These figures clearly demonstrate that America's small business owners and aspiring entrepreneurs are aware that they need management and technical assistance to enhance their likelihood of business success. They are increasingly seeking that assistance from the experienced, capable, and dedicated men and women who are consultants and trainers in America's Small Business Development Center Network. In Maine, nearly 3000 nascent entrepreneurs and existing business owners sought one-on-one business, assistance in Calendar 2004 with a similar number in attendance at 180 Maine SBDC sponsored workshops, notwithstanding yet another similar amount served with SBA termed information transfers. Clearly, in Maine and nationally demand is enormous.

Looking even closer at the SBDC client base, SBA's latest figures show that in 2004, 40 percent of SBDC counseling clients nationwide were women (in Maine: 47 percent). SBDCs serve more women than all other Federal management and technical assistance programs combined. And the increase in entrepreneurial activity among women is dramatic. Entrepreneurial activity is also rapidly increasing among minorities. Seventeen percent of SBDC clients are African American, over 10 percent are Hispanic and 4 percent are Asian-Americans. Over 9 percent of SBDC counseling clients are self-identified veterans (in Maine: 12 percent). Sixteen percent of our counseling clients were engaged in retail. Thirty-eight percent were engaged in service, 8 percent were engaged in manufacturing (in Maine 12.4 percent), 3 percent were engaged in wholesale, and 4 percent were engaged in construction. Forty-four percent of our training seminar attendees were women, twenty-four percent were minorities and 7 percent were self-identified veterans.

And these SBDC clients and firms are not simply statistics. They are our neighbors, our relatives and our fellow church congregants, who have children in our children's schools and businesses in our communities. They are individuals like Mark Awalt of JSI Store Fixtures in Milo, Maine, Susan Giguire of Care & Comfort in Waterville, Maine (recognized by the SBA as 1 of 15 nationally acclaimed Women Entrepreneurs), and Martin Grohman of the tech-savvy company Correct Building Products in Biddeford, Maine, makers of CorrectDeck; and Christine Henriques with her partners, Gabe Linden and Jason Mark, of Gravity Switch, a multimedia development firm in Northampton, Massachusetts; and Mark Hanudel of R & H Quality Refractory Service, Inc who was the 2004 SBA Small Business person of the year from Sulphur, Louisiana; Merrie and Tom Ellsberry and their mobile document shredding business in Cheyenne, Wyoming; Dawn and Rod Nimtz and their Cracked Egg Omelette Shoppe in Bay City, Michigan; and thousands and thousands of others. These men and women from all types of communities, educational backgrounds, ethnicity, etc., are building and growing companies. And the companies they are building and growing are providing work for others in their communities. Those workers and the companies that employ them are paying local, State and Federal taxes. And the tax revenues resulting from the increased economic activity of SBDC clients exceeds the Federal outlays for the SBDC program. The 2004 Chrisman Study of SBDC long-term clients who received assistance in 2002 found that the incremental performance improvements of these clients resulted in $210. 3 million in additional tax revenues from established businesses and $264.8 million from preventure clients who started new businesses. This amounted to a total of approximately $475.1 million in additional tax revenues of which $211.6 million went to the Federal Government and $263.5 million went to the states. In Maine the report shows that $2.00 is returned to Maine the very next year through State tax revenues for each State dollar invested in the Maine SBDC every year, and $2.60 is returned through Federal tax revenues to the U.S. for each Federal dollar invested.

Madame Chair, very shortly now, you will be submitting a letter to the Senate Budget Committee regarding the needs of programs under this committees jurisdiction. In his inaugural address last month, the President told the Nation he wanted to enhance opportunities for business ownership. We share his vision of an opportunity society. But just as opportunities are foreclosed for millions of young people who drop out of school or do not attain education past high school, so are opportunities lost to millions of small business owners or aspiring entrepreneurs if they cannot access resources that will enable them to manage their businesses effectively and profitably or start a new business.

We believe that if the SBDC program is to meet the growing needs of women, minorities, baby boomers, and small manufacturers, or businesses impacted by National Guard and Reserve call-ups; the SBDC program must have additional resources. To restore states like Missouri, Massachusetts, Michigan, Indiana, Minnesota, Louisiana, etc., to the actual dollar funding they had in fiscal year 2000 and to restore low population states like Maine, Montana, Wyoming and South Dakota to the real dollar funding they had in 1998 will require an appropriation of $109 million. We trust, Madame Chair, that when you write to the Chairman of the Senate Budget Committee on which you serve, that your recommendation will take into account the real needs of this nation's small business sector for management and technical assistance. We hope you will consider asking the Budget Committee to include in the budget a level of funding for the program that will begin to restore the real loss of resources that this program has experienced over the last 8 years. We hope you will encourage the Budget Committee to take into account that the job creation and increased sales that the SBDC program helps to generate for its small business clients, in turn generates tens of millions more in revenues for the Treasury than the program receives from the Treasury. We hope that when you write your letter, you will recall the President telling the Congress in his State of the Union address that "small business is the path of advancement, especially for women and minorities." We hope that you will ask for a $109 million for the SBDC program.

Additionally Madame Chair, we are concerned with the elimination of SBA's FAST program, which a number of SBDC's directly or indirectly participate in as to assist new technology related business with the process of commercialization of products. In Maine, the Maine SBDC through its tech-focus program, the Maine Small Business & Technology Development Centers (Maine SBTDC), works in partnership with the Maine Technology Institute (MTI) to drive the vitality, competitiveness and clustering of tech-based small businesses across Maine. Funding through FAST enables MTI along with its partners, such as the Maine SBTDC, to create a statewide entrepreneurship network, facilitating access to business expertise, markets and capital. Maine currently has a strong commercialization-assistance program with funding accessed from fiscal year 2004. The FAST award accounts for $95,000, with $157,000 in matching State funds. An ROP award worth $49,000, with $25,000 in matching State funds, adds to the overall budget. The integration of these awards helps MTI and the Maine SBDTC achieve management efficiencies in the development, promotion, execution and performance-measurement of high-quality commercialization services. Similarly, other states are able to mobilize resources for tech-commercialization using FAST dollars as a basis for composition of meaningful results-oriented activities such as the following currently in Maine, which include:

- *Improving the quantity and quality of SBIR proposals to Federal agencies.*—Since the inception of Maine's SBIR technical-assistance program in 1997, SBIR investment in the State has increased steadily, growing from $1.5 million in 1997 to more than $4 million last year. Similarly, the number of SBIR projects awarded to Maine firms has grown from five in 1997 to 23 in 2004. For 2005, Maine will commit more than 2,700 hours of outreach and consulting time to businesses submitting SBIR proposals. The organization anticipates that this assistance will return approximately 30 awards and an investment in Maine of $6 million.
- *Producing an intensive 10-week series of commercialization workshops.*—The workshop series cultivates the marketing and sales of tech-based products and services developed by Maine entrepreneurs. Designed to promote interaction within a small group, the workshops provide hands-on and practical knowledge to support go-to-market activities. The series challenges firms to think strategically and analytically while facilitating exploitation of the business opportunity. Since inception of the series in 2002, 40 firms have completed the coursework. This year's series, starting in the spring, will feature increased use of the Internet. Live "web streaming" will encourage participation by firms in rural areas, and on-line "threaded" discussions will enable a continuing exchange of ideas outside the physical workshop.
- *Growing small businesses with the Maine Tech Trackers.*—Maine Tech Trackers are Maine's volunteer technology business advisors. Motivated by an interest in playing a role in Maine's economic development, Tech Trackers provide short-term and targeted assistance to MTI/SBTDC portfolio companies. Recruited statewide, Trackers are entrepreneurs, senior managers in large firms, and venture capitalists. They volunteer a small portion of their time to help technology business clients overcome specific business challenges, including accounting, engineering tests for patent applications, and business valuation for the purposes of a sale. In their role as mentors, they support small businesses by providing encouragement, critique and advice.

We believe the elimination of the FAST appropriation to be imprudent in the face of lost manufacturing jobs discussed earlier. According to the Council for Competitiveness, "Innovation fosters the new ideas, technologies, and processes that lead to better jobs, higher wages and a higher standard of living. For advanced industrial nations no longer able to compete on cost, the capacity to innovate is the most critical element in sustaining competitiveness. The United States stands apart from the rest of the world in its record of sustained innovation over decades, across industries, and through economic cycles. But the United States now finds itself at a potential inflection point—facing new realities that pose significant challenges to our global innovation leadership. How the United States responds to these realities is critically important and is the goal of the National Innovation Initiative." Elimination of FAST funding appears to fly directly in the face of this initiative, as outlined in a very recent report, entitled *Innovate America*, published by the Council.

The Administrations budget also seeks to eliminate the SBA Micro-loan program—30 percent of micro-loan borrowers are African American, 11 percent are Hispanic, 37 percent are women, and 30 to 40 percent are rural. Needless-to-say, our concern is that access to capital will be severely limited to our Nation's underprivileged, and even though the SBA claims it is being replaced by the Community Express program, that method of business capital access is little more than "credit card" debt, fraught with all the dangers of that type of business or, for that matter, personal financing. I know it is of particular import to Maine.

We ask that the Committee consider working toward restoration of FAST and the SBA Micro-loan Program.

Finally Madame Chair, we want to call your attention to proposed fiscal year 2006 legislation by the SBA, *Title II: Entrepreneurial Development—Sec. 201: Small Business Development Center Competition*, which proposes authorization of outside competition based on performance (FY 2005) as allegedly to improve performance results and provide a more cost effective and responsive SBDC program. We ask you, Senator Kerry and the Committee to vehemently oppose this needless change.

With all due respect, to our partner, the, SBA, we believe such a legislative change would far from improve performance overall, or in any way, improve results, or possibly suggest a more cost-effective methodology for the SBDC program, quite the contrary. Frankly, the Agency has numerous tools at its disposal to manage the SBDC program including program reviews, financial audits, diversity audits, DC-based program managers, locally-based project officers and district directors, client surveys, annual work plan negotiation, statistical measurement, generally additional state oversight because of matching requirements, most importantly ASBDC peer review accreditation, and, if necessary, protocol to re-bid an individual program when all fails. We suggest if that is not enough to assure outstanding performance results than perhaps Congress has been placing false trust in the Agency's ability to manage. We certainly hope not.

This year, the ASBDC celebrate twenty-five years of serving America's small business community: twenty-five years of continuous improvement, twenty-five years of helping small businesses succeed, and twenty-five years of proven results. As the members of this Committee know, the SBDC program is a program that works exceptionally well in Maine and in states throughout the country. It is a program with a proven track record of creating new businesses, jobs, sales and economic development by leveraging Federal, State, university, regional and private resources. It makes no sense for the SBA to propose changes to the SBDC program that will weaken its ability to fulfill its mission.

We believe hidden in this SBA suggested legislation, the SBA is again proposing to repeal the law's requirement that applicants to host SBDC networks must be institutions of higher learning. SBA would make any non-profit organization eligible to apply for an SBDC grant, regardless of whether it had any expertise in entrepreneurship or the delivery of management and technical assistance to small businesses. We believe such would severely damage the SBDC program.

Institutions of higher learning bring academic pedigree and stability to State SBDC networks, because such institutions are built on solid financial and community foundations. In addition, institutions of higher learning help to ensure the quality and educational mission of a state's SBDC services to small business owners and aspiring entrepreneurs. The University of Southern Maine (USM) was an original pilot project participant in the creation of the forerunner to today's SBDC program and since has an over twenty-five year history of successfully assisting Maine's small businesses. Throughout those years, the University in collaboration with Maine's SBA District Office and Maine Department of Economic and Community Development has nurtured and leveraged the Maine SBDC program to be a statewide motivating force in developing the entrepreneurial spirit of Maine people.

USM is proud of its more than 25-year role as the administrative unit for the Maine SBDC. Moreover, hosting SBDC provides opportunities for an ongoing, mutually beneficial relationship with the USM School of Business, its Center for Entrepreneurship and business research centers, and other campus entities that can create real-world solutions to business issues while complementing the University's mission of cultivating partnerships in support of the region's economic and social development.

The SBA's proposed legislative changes come at a time when Institutions of Higher Education's importance in economic development strategies are at an all time high. Witness:

• "In Cleveland's heyday, . . . proximity to water or rail mattered a lot. Today, proximity to a university campus matters a lot." (Tim Ferguson, *Forbes*)

• In his new book, "*The Rise of the Creative Class*", Richard Florida refers to colleges and universities as ". . . a huge potential source of competitive advantage." And he says that colleges and universities are today ". . . a basic infrastructure component . . . and far more important than traditional infrastructures such as ". . . the canals, railroads and freeway systems of past epochs . . ."

• States such as Georgia have recognized the fundamental role of higher education so clearly that its former Governor, now U.S. Senator Zell Miller, publicly declared that higher education was the infrastructure of Georgia's new economy.

• "Much of the burden of transforming Mississippi's economy will fall squarely upon the capable shoulders of the state's economic developers and our higher education system." (*Economic Development through Higher Education*, a report from the Mc Coy Working Group).

• "A strong partnership with government, business, and higher education is critical to overcome the challenges of the transition to the new global, knowledge-based economy. There are increasing expectations from legislative and executive leadership in the State that the University of North Carolina assume a more direct, active role in economic development. . . . In its growing role in economic development, UNC is building on a strong record of service and support for communities and entrepreneurs, including those in rural areas . . . Seventeen Small Business and Technology Development Centers play a key role in entrepreneurial development, offering services to existing businesses and industries and supporting strategic economic development initiatives." (*The Role of the University in Economic Development*, The University of North Carolina Board of Governors Long Range Plan 2004–2009)

An SBDC program that is supported by an institution of higher learning like the USM or UNC or UMass or Wharton for that matter, benefits from both the resources and the high standards of that institution typical to standards set by accreditation bodies, actively engaged trustees and in the case of public institutions, the rigors of legislative scrutiny. Most institutions of higher learning have business schools that contribute the expertise of faculty, business student interns, academic crossover, MBA students, Centers for Family Business and/or Entrepreneurship and other resources. SBDC programs are, as a matter of course and design, educational programs; as such, it is only logical that institutions of higher learning should host them. It makes no sense, as the SBA seems to be proposing, to solicit SBDC grant applications from non-profit organizations that have no background or expertise in providing entrepreneurship, management and technical assistance to small businesses. And even if some non-profits do have some limited experience in these areas, their focus is usually limited; they cannot possibly bring the broad prospective that institutions like the University of Southern Maine bring to the responsibilities associated with facilitating economic progress through small business creation, growth and development.

In Maine, we do use some community and/or community development corporations as sub-hosts, but it is well documented in the SBA that such requires very keen oversight, can only operate effectively on a regional basis within the State, and need the overarching infrastructure of State support and University contractual oversight to be effective. And it is only since this State director has taken charge that there is consistency of program. To expect that any one of them could operate on a statewide basis is wishful thinking. In fact, the Women's Business Center, now administered by a CDC, has entered into a strategic alliance with the SBDC, as to garner systems, efficiencies, professional development and statewide outreach.

SBDC business management assistance counselors are qualified small business professionals who have diverse educational and business experience. Many hold MBA's and have owned and operated their own businesses. Often they bring diverse corporate experience to bear on seeking solutions for small business, especially in the areas of marketing, management and operations. Each counselor is required to participate in a professional development program, which administers core competency standards, personal professional development plans and counselor certification for SBDC personnel. Additionally ASBDC professional development is mandatory for many SBDC programs.

Three years ago, Maine Small Business Development Centers received the Margaret Chase Smith Maine State Quality Award. This award recognizes organizations for performance excellence, based on criteria corresponding to the Malcolm Baldrige National Quality Award. The criteria for the award examine a wide range of qualities, from leadership to business results, and evaluate how well an organization's systems support its goals and objectives. Last year, the Maine SBDC underwent its peer accreditation review—perhaps the toughest management review, I have undergone as a professional manager. It too is based on Baldrige criteria and it takes seriously the idea of pass or fail in its process of review with the opportunity for non-accreditation and loss of SBA funding to occur.

This track record of quality within staff and the organization as outlined in the preceding two paragraphs has been honed with time and in the context of a University with a 125-year-old tradition of public service. Not to seek ways to build on such consistency and context in my opinion is risible on the part of the SBA.

Additionally, the SBA's request to require SBDC grants to be re-competed every 5 years would discourage institutions such as the University of Southern Maine from participating in the SBDC program, because such institutions would not want to invest significant matching resources in a program that might be available to them for only a short period of time. For example, in the past 5 years, the University of Southern Maine has invested nearly $550,000 in the Maine SBDC and over. 1 million dollars in cost share for the privilege of administering the Maine SBDC. In all likelihood, such an investment would not have been made if the potential to lose the program because of what possibly could be construed as politics, even marginally existed.

Moreover, requiring host institutions to re-compete for SBDC grants every 5 years would not add to the accountability or quality of SBDC programs. Under current law, the SBA can already revoke an SBDC grant if the grant recipient is underperforming, and under current law the SBDC program is already required to have an accreditation program, that ensures quality among grant recipients. Accreditation, more than any SBA scrutiny, is a most productive mechanism for continuous improvement of the SBDC program because it is done in the context of constructive criticism and is absent any political influence, but rather reflects the goals of the ASBDC, the SBA and the states to assure the Congress it is getting what it is paying for.

In addition, SBDC hosts in every State undergo reviews by SBA auditors every 2 years; and as well, they receive regular program, audits from SBA project directors, and also must supply titanic amounts of information, often duplicative, to the SBA. It is inherently unfair, absent a showing of mismanagement or wrongdoing, to pull a grant from a host institution that has made a significant contribution of resources to a program in the form of matching funds, in-kind contributions, training and development and other resources. There simply is no way the momentum it takes in organizational development, resource development, and relationship management, etc. should be broken for the sake of supposed competition. If there is improvement to be made, let a progressive system take care to define objectives and have the SBA and SBDC hosting organizations and other important stakeholders work together to get it done. When and where and if there is a failure in the system, let the accreditation process handily solve the problem through methods already available for assuring consistency and success of individual SBDC programs.

Notwithstanding all of the above, the SBA by way of its yearly program announcement insists the SBDCs through a negotiated process develop, annually the extent to which SBDC statutory and program duties are to be delivered to address the needs of states' small business communities. In doing so, SBDCs and their partnering organizations must ensure that statutory and regulatory duties are met. SBDCs then annually operate under an annual plan, approved by the SBA, to provide ongoing small business assistance, and thereby must employ their best efforts to ensure that economic development and technical assistance services are available, as defined by statue, to all small business populations where critical success factors apply, including but not limited to SBA's special emphasis groups: Minority-, Veteran-, Women-owned (ex: Native Americans, Hispanic Americans, Black American, Reservists, Women, etc.). It seems to me the SBA has ample opportunity to reasonably define their wants and needs for any SBDC program within such a vehicle and that within one which already exists.

Members of the Committee, the Maine SBDC is a partnership program that combines the resources of the Federal Government, the Maine Department of Economic and Community Development, the University of Southern Maine, and leading economic and community development organizations. For 27 years the Maine SBDC has provided comprehensive business management assistance, training and information services to Maine's micro-, small-, and now technology-based business communities. The effectiveness of this partnership, and the delivery of services to Maine's small businesses, depends on good faith, stability and cooperation among the partners. This partnership, and the resources that each of these partners brings to the SBDC program, more than likely State participation, could be destroyed by the

SBA's proposal to recompete SBDC grants every 5 years. It simply makes no sense. It takes from 6 to 8 years for a counselor in New England to progress from rookie to seasoned even with the rigorous hiring requirements we place on the position. The SBDC network values longevity as do the people who are part of it, many with over 10 years experience who simply wouldn't stay around if they knew their benefits and or retirement could be jeopardized every 5 years; they simply are too good and generally too entrepreneurial to deal with the kind of bureaucracy re-competing could bring. Ernesto Sirolli, the renowned author and principal of enterprise facilitation, suggests good business counselors to be somewhat gray haired and having been there and done it. If you subscribe to his theory (and I see myself as a living example, having over thirty years of business experience including that of a Founding Officer of Staples), these folks want to concentrate on the person of the client and not the pottage. Please let them.

Let's not forget our State partners either. In Maine, the State puts in nearly 500,000 dollars additional cash over and above the 250,000 dollars cash required by the SBA; the in-kind is well provided for as well; and additional cash and leverage come from a myriad of partners. These partners including the SBA and the State all are working together in a coordinated fashion with an understanding that both State and Federal needs have to be met in coordination with one another. One-sided control is yesterday's theory. A statewide newspaper article excerpted below demonstrates collaborative realities in Maine:

> *Maine Small Business Development Centers serve thousands of small business owners each year through. one-on-one business counseling and comprehensive training programs. Most Maine SBDC services are offered at no cost to clients and delivered by a team of highly qualified professionals who bring entrepreneurial experience, advanced business education, and corporate know-how to their role in advising small businesses. Maine SBDC is frequently asked how it is able to provide the level of service it does at little or no cost to its clients, who have often invested every financial resource they have into their businesses. The answer is collaboration.*
>
> *By working in partnership with business assistance service providers throughout the State, the Maine SBDC can give clients access to the best talent and resources available. In addition to funding from SBA, the State of Maine, and the University of Southern Maine, the Maine SBDC is fortunate to have many longstanding partnerships. Maine SBDC services to small businesses get a boost from collaborative relationships such as those with Maine Technology Institute, Market Development Center, Maine Women Work & Community, and others whom support customized services for specific industries and/or communities.*
>
> *Through effective collaboration with many organizations that serve small business, and coordinated missions including those of other SBA funded partners, the Maine SBDC fosters the entrepreneurial spirit upon which the future of the State's economy depends.* (MaineBiz)

As the members of the Committee know, all is not always rosy with the small business sector. The small business sector's need for management and technical assistance is greater than ever as America looks to it to fuel job growth. And so, it is more important than ever that the Committee reject SBA's proposed legislative changes to the SBDC program—such that they would weaken the SBDC network's ability to serve America's small business owners and aspiring entrepreneurs.

As Madame Chair knows, Maine's economy is based on small business. More than 98 of Maine businesses employ fewer than 100 employees and more than 92 percent employ fewer than 20 employees. The services that the Maine SBDC provides to aspiring and current business owners are clearly critical to the success of Maine's economy. These services should not be put in jeopardy to serve the interests of the bureaucracy that administers the SBDC grants in Washington, DC.

The national SBDC network, including the Maine SBDC, has a proven record of creating jobs and generating growth for America's small businesses as outlined in previous testimony. With such a record of accomplishment, both in Maine and across the nation, there is no justification for the SBA's proposal to radically restructure and put at risk the effectiveness of America's Small Business Development Center Network.

Chair Snowe, we sincerely appreciate your strong support for the Maine SBDC and America's Small Business Development Network; I urge you, Senator Kerry and the members of this Committee to reject the SBA's SBDC legislative proposal. Rather, I ask that the Committee focus on ways to enhance entrepreneurial development in our great country by building on the success of the SBDC program and by developing improvement activities through increased funding, collaboration and quality-related legislative activities to help get and keep America's economy moving forward with small business at the core as it has been and continues to be!

Thank you again for allowing me to appear before the committee today. It has been an honor and a privilege. At this time, I will be glad to respond to any questions that you, Madame Chair, or other members of the committee may have.

Chair SNOWE. Thank you, John.

Well, you give us a good idea—not about the head. That is an interesting point, in terms of administrative costs. That is something we certainly should look at.

I appreciate your views and the startling numbers regarding Maine. That is something we have known, how difficult the economic environment is, but compounded with all the other challenges as well. So I thank you.

Mr. Tuvin.

STATEMENT OF EDWARD "EDDIE" TUVIN, FIRST VICE PRESIDENT OF COMMUNITY SOUTH BANK ON BEHALF OF THE NATIONAL ASSOCIATION OF GOVERNMENT GUARANTEED LENDERS

Mr. TUVIN. Thank you, Madame Chairwoman.

I am Eddie Tuvin, First Vice President with Community South SBA lending. We are an active SBA lender with lending operations all along the Eastern seaboard and a member of the National Association of Government Guaranteed Lenders, a trade association for lenders and other participants who make about 80 percent of the Small Business Administration Section 7(a) loans.

Commonly called the SBA's flagship program, the 7(a) program has proven to be an excellent public-private sector partnership, in my opinion probably the best in the world. Over the last decade, the SBA has approved roughly 500,000 loans for approximately $100 billion. We thank the Committee for the opportunity to provide NAGGL's written testimony on the SBA fiscal year 2006 budget request and other current issues facing the SBA 7(a) program.

And Madame Chair, I would like to submit my testimony for the record.

Chair SNOWE. Without objection, so ordered. And we will do that for all the other panelists, as well.

Mr. TUVIN. Madame Chair, we concur with your thinking and your perception and views of how the SBA 7(a) actually operates and what the fiscal year 2006 budget might do and recognize this in connection with Ranking Member Kerry's comments earlier.

With that, I would like to present five points that we are focusing on and then I will move into the comments that we would like to make relative to these five points.

First of all, we support at least a $17 billion program for fiscal year 2006.

Second, we feel that a thorough review of the 7(a) credit subsidy model and the changes in fiscal year 2006 program estimates should be made.

Third, we support the reinstatement of piggyback or combination loans through legislation, if necessary.

Fourth, we support the establishment of what is known as a National PLP Lender Approval to eliminate these lenders going back and forth from State to State trying to get PLP, which we thought was a great program at the SBA when they delegated more authority outside of their offices and became more efficient. We think there is another level for that.

And finally, fifth, we oppose granting SBA the authority to levy an unneeded secondary market fee.

Last year at this time representatives testified about the many challenges facing the 7(a) program and many of us here today met with staff to work through the issues. Thanks to the efforts of the Small Business Committees and the SBA officials, the problem was resolved and fiscal year 2004 lending set records for both numbers of loans originated and dollars loaned.

Fiscal year 2005 is also off to a record start, with almost $3.6 billion lent in the first fiscal quarter alone. As part of the compromise worked out at the end of the 108th Congress, the 7(a) program received $16 billion in lending authority for fiscal year 2005, which should be sufficient to meet the lending needs.

The Administration has requested a $16.5 billion program level in fiscal year 2006. Fiscal year 2004 usage was about $13.5 billion and some forecast that all $16 billion of available lending authority will be used this fiscal year. Given the growth rate in the program, we would request that the Committee support at least a $17 billion program. This would match the authorization level passed in the Omnibus Appropriations Bill that was in December 2004 and will probably lessen the risk of future program caps or restrictions.

About the fees. From the start of fiscal year 2004 to fiscal year 2006 we heard testimony earlier that the increases were 118 percent, if the increase proposed is put into effect. The latest increase would be within the compromise worked out in the 108th Congress. The trend of higher and higher feeds needs really to be reversed. It is disturbing that months after a compromise deal was established that we are back talking about the issue again.

In addition, the Administration reports in table 8 of the Federal Credit Supplement to the fiscal year 2006 budget, page 54, that the subsidy rate established for fiscal year 2004 was excessive. The original rate for fiscal year 2004 was 0.78. It has now been reestimated and reduced, as we discussed, to 0.24.

Now the Administration is recognizing the fee increases, which they demanded in the start of fiscal year 2005 be imposed upon the lenders and borrowers to lower the subsidy rate to zero, should actually lower the rate to a substantially negative number. We believe that given the downward subsidy reestimate for fiscal year 2004, the subsidy rate should have actually declined in fiscal year 2006, resulting in a lower lender fee.

We encourage the Committee to ask the Administration, as we heard the the Committee request earlier, for a thorough explanation of the changes made in the subsidy and reestimate models.

The Administration also is requesting authority to charge lenders a fee for loans sold in the secondary market. The fiscal year 2006 budget, in table 6, does not provide any income from a proposed fee. So thus, the proposed fee must be zero and is unnecessary.

With that, I rest my comments, I thank you, and would be willing to answer any questions that you have.

[The prepared statement of Mr. Tuvin follows:]

Statement of the National Association of Government Guaranteed Lenders, Inc.

The National Association of Government Guaranteed Lenders, Inc. (NAGGL) is a trade association for lenders and other participants who make approximately 80 percent of the Small Business Administration (SBA) section 7(a) loans. Commonly called SBA's "flagship" program, the 7(a) program has proven to be an excellent public/private sector partnership. Over the last decade, the SBA has approved roughly 500,000 loans for approximately $100 billion. We thank the Committee for the opportunity to provide written testimony on the SBA fiscal year 2006 budget request and other current issues facing the SBA 7(a) program community.

ONE YEAR LATER

Last year at this time, the 7(a) lending program was in the middle of a crisis. Lack of adequate funding at the start of fiscal year 2004 led to a variety of problems, including an unprecedented "lending holiday" and subsequent program caps and limitations. Thanks to the efforts of the Small Business Committees and SBA Officials, that problem was resolved and fiscal year 2004 lending set records for both numbers and dollars loaned. Fiscal year 2005 is also off to a record pace, with almost $3.6 billion lent in the first fiscal quarter. As part of the compromise worked out at the end of the 108th Congress, the 7(a) program received $16 billion in lending authority for fiscal year 2005, which should be sufficient to meet the net lending demands of small businesses.

STATISTICS

The SBA loan programs are the largest source of long-term capital for small business in this country. Based upon bank "call" reports, the SBA Office of Advocacy reports there are $485 billion in outstanding small business loans. From FDIC data, only about 20 percent of those loans (approximately $95 billion) have an original maturity over 3 years. The average original maturity of an SBA 7(a) loan is about 14 years, and the SBA 504 average is even longer. The balance of the outstanding 7(a) portfolio is approximately $40 billion or a significant percentage of all outstanding long-term small business loans. Small businesses rely upon the SBA 7(a) program to be a major source of long-term debt capital.

FY 2006 Budget

FY 2006 LOAN DEMAND

The Administration has requested a $16.5 billion program level in fiscal year 2006. Fiscal year 2004 usage was approximately $13.5 billion, and some forecast that all $16 billion of available lending authority will be used this fiscal year. Given the growth rate in the program, NAGGL requests that this Committee support at least a $17 billion program for fiscal year 2006. A $17 billion program would match the authorization level passed in the Omnibus Appropriation bill in December 2004, and would lessen the risk of future program caps or restrictions.

MORE FEES

From the start of fiscal year 2004 to the start of fiscal year 2006, lender fees will have increased 116 percent if the increase proposed in the fiscal year 2006 budget is put into effect. Although the latest increase would be within the compromise worked out in the 108th Congress, the trend of higher and higher fees must be reversed.

It is disturbing that the 7(a) program faces further fee increases considering that the compromise deal establishing fee levels was signed into law just 2 short months ago. In addition, the Administration reports, in table 8 of the Federal Credit Supplement to the fiscal year 2006 Budget (on page 54), that the subsidy rate established for fiscal year 2004 was excessive. The original subsidy rate for fiscal year 2004 was 0.78 percent, but this has now been reestimated and reduced to 0.24 percent. Thus the Administration is now recognizing that the fee increases which they demanded be imposed upon lenders and borrowers to lower the subsidy rate to zero should have actually lowered the rate to a substantially negative number. We believe that given the downward subsidy re-estimate for fiscal year 2004, the subsidy rate should have actually declined in fiscal year 2006, resulting in a lowering of the lender fee.

NAGGL encourages this Committee to ask the Administration for a thorough explanation of the changes made in the subsidy and re-estimate models.

SECONDARY MARKET FEE

The Administration also is requesting authority to charge lenders a fee for loans sold in the secondary market. In the fiscal year 2006 budget, in Table 6 on page 23, the Administration does not provide any income from a proposed fee. Thus the proposed fee must be zero and is unnecessary.

NAGGL is opposed to granting the authority to impose secondary market fee for several reasons. First, the SBA has not documented a need for such a fee. The secondary market and the master reserve fund have operated smoothly and efficiently for some 20 years. What variables has the Administration used to calculate a subsidy rate for this program? The Administration took some administrative actions last year. What impact did those changes have on the subsidy rate? What other administrative changes could be made so that charging an additional fee could be avoided? Until these and other questions have been answered and there has been a full disclosure of the subsidy rate calculation, NAGGL opposes granting SBA the authority to charge this additional fee.

NATIONAL PLP AUTHORITY

As part of the compromise reached in December, a national Preferred Lenders Program or PLP should have been included in the legislation. Today, lenders who lend in multiple districts spend an inordinate amount of resources dealing with the multitude of district offices in establishing or renewing their PLP status. The new program would have established guidelines for the SBA to grant national PLP status to those lenders meeting the benchmarks. Unfortunately, due to a clerical error, the provisions were not included in the final legislative package, which was enacted as Division K of the Omnibus Appropriations Act (P.L. 108–447). NAGGL requests that this provision be included in the near future in any appropriate legislative package, particularly in any technical corrections bill, which SBA has said it will submit.

PIGGYBACK RESTRICTION STILL IN PLACE

A lender generally utilizes the 7(a) program because an applicant has a credit deficiency or needs a longer term loan than could be provided without the 7(a) program. In other instances an applicant has a need that is larger than the maximum loan size allowed under the 7(a) program. To accommodate this higher financing need, a lender historically has utilized a piggyback structure or a combination loan to meet the borrowers' financing needs.

For example, assume an applicant needs to borrow $2.5 million, or $500,000 more than the 7(a) limit. A lender could have provided a $500,000 conventional loan in a first lien position, and a $2,000,000 SBA 7(a) loan in second lien position. Unfortunately, however, SBA administratively prohibits the use of piggyback financing and the statutory provisions permitting combination loans expired at the end of fiscal year 2004. Thus the financing needs in excess of the 7(a) program limit cannot be met.

Ironically, this piggyback or combination loan structure is similar to the loan structure provided in the SBA 504 program, with two key differences. With a 504 loan the SBA has 100 percent of the credit risk on the second mortgage loan. With a 7(a) loan, under the piggyback structure, the originating private sector 7(a) lender has at least a 25 percent pro-rata share of the second lien loan, and thus the lender is sharing in the credit risk. The second difference is that the government collects substantially more fees on a 7(a) loan than it does a 504 loan.

NAGGL has met with Administration officials, and subsequently submitted a proposal to them to reinstate piggyback lending. We are awaiting a response.

With the piggyback prohibition, many applicants have no solution to their need to find larger loan packages. We request that this Committee work with the Administration to reinstate the use of piggyback loans so that lenders again would have a vehicle to serve those small businesses that need larger loan packages.

CONCLUSION

In conclusion, NAGGL requests that this Committee:

1. Support at least a $17 billion program for fiscal year 2006;
2. Conduct a thorough review of the 7(a) credit subsidy model changes in the fiscal year 2006 program estimate;
3. Support the reinstatement of piggyback or combination loans, through legislation if necessary;
4. Support the establishment of a National PLP Lender approval and renewal process through legislation; and

5. Oppose granting SBA the authority to levy an unneeded secondary market fee.
Thank you for the opportunity to submit our written testimony.

Table 6.—LOAN GUARANTEES: ASSUMPTIONS UNDERLYING THE FY 2006 SUBSIDY ESTIMATES—Continued

(in percentages, unless noted otherwise)

Agency, Bureau, Program and Risk Category	Subsidy rate	Composition of Subsidy: Defaults, net of recoveries	Composition of Subsidy: Interest	Composition of Subsidy: Fees	Composition of Subsidy: All other	Loan Characteristics: Loan maturity (years)	Loan Characteristics: Borrower rate	Loan Characteristics: Grace period (years)	Loan Characteristics: Upfront fees	Loan Characteristics: Annual fees	Loan Characteristics: Other fees	Loan Characteristics: Default rate[1]	Loan Characteristics: Recovery rate[2]	Loan Characteristics: Percent guaranteed
Department of the Interior														
Bureau of Indian Affairs:														
Indian Guaranteed Loan Program	4.75	3.10	3.45	−1.80	....	16	9.00	....	2.00	....	....	4.29	10.52	90.00
Indian Insured Loan Program	4.75	3.10	3.45	−1.80	....	16	9.00	....	2.00	....	....	4.29	10.52	90.00
Department of Transportation														
Office of the Secretary:														
Minority Business Resource Center	1.85	1.85	....	....	....	2	6.56	....	....	....	....	2.00	....	75.00
Federal Highway Administration:														
TIFIA Loan Guarantees	3.67	3.92	....	[9] −0.26	....	37	5.32	5	0.30	0.01	....	26.18	60.00	100.00
Department of Veterans Affairs														
Benefits Programs:														
Housing Guaranteed Loans	−0.32	1.44	....	−1.75	....	30	6.71	....	1.78	....	0.50	7.21	73.65	25.00
Guaranteed Loan Sale Securities	4.12	5.05	....	....	−0.93	30	6.57	....	....	....	....	6.64	14.31	100.00
International Assistance Programs														
Agency for International Development:														
Development Credit Authority	3.90	5.24	....	−1.34	....	8	4.91	5	0.75	0.50	....	13.29	....	50.00
Loan Guarantees to Israel Program	....	5.10	....	−5.10	....	23	5.50	....	5.10	....	....	....	....	100.00
Overseas Private Investment Corporation:														
OPIC Loan Guarantees	0.80	6.42	....	−5.62	....	7	4.61	4	0.50	1.32	....	12.00	50.00	100.00
OPIC Investment Funds and Structured Finance	−17.33	0.29	....	−17.62	....	13	6.03	6	0.50	1.62	....	14.82	10.00	100.00
Small Business Administration														
General Business Loan Programs:														
7(a) General Business Loans	....	3.52	....	−3.52	....	15	7.17	....	3.17	0.54	....	7.21	51.11	68.20
Section 504 Certified Development Companies Debentures	....	3.13	....	−3.50	0.38	20	6.23	....	1.20	0.34	....	5.95	41.91	100.00
SBIC Debentures	....	8.97	....	−9.05	0.07	10	5.24	....	3.00	0.94	....	34.41	71.15	100.00
Secondary Market Guarantee	....	....	....	....	....	20	4.47	....	....	....	....	....	....	100.00
Other Independent Agencies														
Export-Import Bank of the United States:														
Short, Medium, and Long Term Guarantees and Insurance Program	2.91	13.13	....	−10.22	....	8	2.88	2	11.27	0.12	....	15.93	....	100.00
Presidio Trust:														
Presidio Trust Loan Guarantee Program	0.08	0.58	....	−0.50	....	20	....	....	0.50	....	....	0.75	....	75.00

* Nonzero amount rounds to zero, based on units for this column.
[1] Lifetime defaults as a percentage of disbursements.
[2] Recoveries as a percentage of lifetime defaults.
[3] Stafford loans include a six-month grace period.
[4] Recoveries include interest and penalties.

Table 8.—LOAN GUARANTEES: SUBSIDY REESTIMATES [1]—Continued

(In percentages, unless noted otherwise)

Agency, Bureau, Program, Risk Category, and Cohort Year	Characteristics of Subsidy Reestimates: Original Subsidy Rate	Current Reestimated Rate	Percentage point change due to interest rates	Percentage point change due to technical assumptions	Current reestimate amount [2] ($ thousands)	Net lifetime reestimate amount [3] ($ thousands)	Net lifetime reestimate amount, excluding interest ($ thousands)	Total disbursements to date ($ thousands)
FY 1994	....	−0.70	(4)	−0.70	−16,557	−22,012	−10,982	1,563,000
FY 1995	....	−1.24	(4)	−1.24	−6,821	−30,012	−15,994	1,250,000
FY 1996	....	−1.47	(4)	−1.47	−10,897	−44,123	−26,372	1,751,300
FY 1997	....	−1.70	(4)	−1.70	−6,709	−34,306	−21,834	1,250,000
FY 1998	....	−2.23	(4)	−2.23	−9,514	−45,155	−32,232	1,411,868
FY 2003	....	−2.53	1.13	−3.66	−65,354	−45,842	−38,788	1,600,000
FY 2004	....	−0.94	−0.12	−0.82	−17,254	−17,254	−16,396	1,750,000
Overseas Private Investment Corporation:								
OPIC Loan Guarantees								
FY 1992	0.52	−8.94	(4)	−9.46	−8,760	−44,690	....	272,702
FY 1993	1.92	−7.58	(4)	−9.50	−49,519	−52,370	....	308,878
FY 1994	2.45	−8.00	(4)	−10.45	−2,256	−96,837	....	647,388
FY 1995	1.91	3.97	(4)	2.06	−84,231	11,058	....	1,009,806
FY 1996	3.72	−4.75	0.57	−9.04	−80,401	−76,374	....	741,176
FY 1997	0.32	−3.19	0.18	−3.69	−98,885	−46,292	....	652,136
FY 1998	−15.38	62.83	−0.71	78.92	16,352	48,707	....	60,000
FY 1999	−12.18	−9.99	−0.09	2.28	−85,592	−66,678	....	516,364
FY 2000	−2.33	(5)	....	....	....	....	....	....
FY 2001	1.18	(5)	....	....	....	....	....	....
FY 2003	−7.98	(5)	....	....	....	....	....	....
FY 2004	−3.81	(5)	....	....	....	....	....	....
NIS — Guaranteed Loan program								
FY 1994	4.81	5.90	....	1.09	13,933	7,294	4,293	393,842
FY 1995	4.19	23.93	(4)	19.74	78.741	70,646	42,637	215,994
FY 1996	9.60	−14.38	(4)	−23.98	....	−5,167	−3,597	15,000
FY 1997	4.93	−12.15	(4)	−17.08	1,266	−25,345	−19,813	116,000
Small Business Administration								
General Business Loan Programs:								
7(a) General Business Loans								
FY 1992	4.85	2.34	0.53	−3.04	71,538	−146,637	−123,536	5,225,979
FY 1993	5.21	1.64	0.22	−3.79	104,166	−221.710	−196,837	5,925,592
FY 1994	2.15	0.57	0.04	−1.62	−73,619	−164,212	−108,636	7,190,942
FY 1995	2.74	2.39	0.23	−0.58	71,038	11,038	−4.417	7,141,980
FY 1996	1.06	1.07	*	0.01	36,797	18,655	−276	6,610,988
FY 1997	1.93	0.65	0.30	−1.58	47,032	−77,586	−94,590	7,884,516
FY 1998	2.14	0.47	−0.91	−0.76	−9,938	−128,606	−121,015	7,618,236
FY 1999	1.39	1.12	−0.50	0.23	52,226	−10,380	−20,336	8,593,952
FY 2000	1.16	1.42	−0.07	0.33	108,096	45,679	25,475	8,899,298
FY 2001	1.16	1.00	0.05	−0.21	62,143	−8,976	−10,866	8,449,435
FY 2002	1.07	0.31	0.14	−0.90	−9,226	−80,306	−75,818	10,375,693
FY 2003	1.04	1.26	....	0.22	2,928	20,506	19,656	9,274,097
FY 2004	0.78	0.24	....	−0.54	−42,248	−42,248	−40,728	7,498,037

Table 8.—LOAN GUARANTEES: SUBSIDY REESTIMATES[1]—Continued

(in percentages, unless noted otherwise)

Agency, Bureau, Program, Risk Category, and Cohort Year	Characteristics of Subsidy Reestimates							
	Original Subsidy Rate	Current Reestimated Rate	Percentage point change due to interest rates	Percentage point change due to technical assumptions	Current reestimate amount[2] ($ thousands)	Net lifetime reestimate amount[3] ($ thousands)	Net lifetime reestimate amount, excluding interest ($ thousands)	Total disbursements to date ($ thousands)
7(a) General Business Loans—DELTA								
FY 1995	2.73	(5)	......	......	......	......	......	1,220
FY 1996	3.15	(5)	......	......	......	......	......	21,115
FY 1997	3.47	(5)	......	......	......	......	......	27,309
FY 1998	3.36	(5)	......	......	......	......	......	27,495
FY 1999	2.08	(5)	......	......	......	......	......	35,028
FY 2000	1.83	(5)	......	......	......	......	......	13,508
FY 2001	1.87	(5)	......	......	......	......	......	2,470
FY 2002	1.73	(5)	......	......	......	......	......	803
FY 2003	1.58	(5)	......	......	......	......	......	150
7(a) General Business Loans — STAR								
FY 2002	1.67	−0.29	−1.67	−0.29	−12,576	−33,895	−11,028	1,621,148
FY 2003	1.04	0.25	−1.04	0.25	−485	−10,840	−445	1,366,602
Section 504 Certified Development Companies Debentures								
FY 1992	0.49	3.57	......	3.08	−3,638	11,166	16,334	562,596
FY 1993	0.54	1.99	......	1.45	−6,921	−3,161	9,476	723,343
FY 1994	0.51	6.08	1.68	3.89	76,524	85,998	65,873	1,135,379
FY 1995	0.57	4.13	2.40	1.16	19,054	41,989	40,356	1,314,744
FY 1996	......	2.51	−0.01	2.52	1,768	41,184	45,914	2,084,215
FY 1997	......	−1.74	−0.07	−1.67	19,052	−13,647	−19,335	1,205,638
FY 1998	......	−0.98	−1.35	0.37	52,600	−2,418	−11,847	1,470,304
FY 1999	......	0.12	0.30	−0.18	26,002	10,769	3,322	1,597,116
FY 2000	......	0.39	0.05	0.34	25,063	7,761	5,819	1,489,887
FY 2001	......	−0.07	0.06	−0.13	444	−2,106	−1,647	1,888,574
FY 2002	......	−1.18	0.01	−1.19	−25,866	−26,329	−23,539	1,980,782
FY 2003	......	−2.04	0.02	−2.06	−47,334	−45,091	−44,077	2,149,448
FY 2004	......	−1.34	......	−1.34	−14,087	−14,087	−13,552	1,012,325
Section 504 Certified Development Companies—DELTA								
FY 1996	0.57	(5)	......	......	......	......	......	8,463
FY 1997	1.01	(5)	......	......	......	......	......	1,727
FY 1998	0.72	(5)	......	......	......	......	......	5,278
FY 1999	1.29	(5)	......	......	......	......	......	1,725
Section 7(m) Microloan Guaranty								
FY 1996	11.95	(5)	......	......	......	......	......	1,579
FY 1997	8.21	(5)	......	......	......	......	......	2,702
FY 1998	8.21	(5)	......	......	......	......	......	3,654
FY 1999	7.97	(5)	......	......	......	......	......	1,757
FY 2000	8 32	(5)	......	......	......	......	......	1,150
FY 2001	7 95	(5)	......	......	......	......	......	2,000
SBIC Debentures								
FY 1992	14.29	22.97	0.19	8.49	19,471	14,111	5,300	60,060
FY 1993	15.40	12.82	0.07	−2.65	12,002	619	−1,331	63,350
FY 1994	16.25	1.11	−0.46	−14.68	−7,528	−22,780	−14,594	100,000
FY 1995	14.65	−16.95	0.41	−32.01	−45,315	−59,060	−32,524	104,430

Table 8.—LOAN GUARANTEES: SUBSIDY REESTIMATES [1]—Continued

(in percentages, unless noted otherwise)

Agency, Bureau, Program, Risk Category, and Cohort Year	Characteristics of Subsidy Reestimates: Original Subsidy Rate	Current Reestimated Rate	Percentage point change due to interest rates	Percentage point change due to technical assumptions	Current reestimate amount [2] ($ thousands)	Net lifetime reestimate amount [3] ($ thousands)	Net lifetime reestimate amount, excluding interest ($ thousands)	Total disbursements to date ($ thousands)
FY 1996	15.46	−22.85	−0.02	−38.29	−74,133	−70,040	−41.437	108,570
FY 1997	3.19	−9.54	−0.01	−12.72	−34,539	−28,613	−17,688	138,725
FY 1998	1.94	9.85	−2.89	10.80	−16,066	34,674	28,361	382,035
FY 1999	1.38	7.79	−2.36	8.77	24,463	23,044	18,408	292,750
FY 2000	....	1.11	(4)	1.11	18,409	6,749	4,312	292,155
FY 2001	....	2.15	(4)	2.15	24,391	12,329	9,226	355,970
FY 2002	....	0.44	(4)	0.44	10,854	2,563	1,961	318,070
FY 2003	....	2.99	(4)	2.99	6,402	7,607	7,078	240,150
FY 2004	....	1.20	(4)	1.20	1,412	1,412	1,357	112,730
SBIC Participating Securities								
FY 1994	9.00	[10] −3.58	−0.41	−12.17	35,051	−15,911	−17,270	149,660
FY 1995	8.90	[10] 24.58	0.18	15.50	89,057	80,525	34,879	219,940
FY 1996	9.00	[10] 15.55	−0.02	6.57	42,403	40,573	15,362	231,230
FY 1997	3.29	[10] 43.92	−0.10	40.73	79,347	147,244	92,216	232,830
FY 1998	2.20	[10] 21.41	−0.93	20.14	−46,253	165,566	122,157	677,825
FY 1999	2.19	[10] 62.04	−1.03	60.88	128,312	668,872	530,644	930,450
FY 2000	1.80	[10] 56.86	0.26	54.80	127,987	683,103	580,673	1,090,860
FY 2001	1.31	[10] 40.08	....	38.77	224,180	596,398	520,875	1,410,790
FY 2002	....	[10] 31.75	(4)	31.75	139,814	252,284	230,721	754,855
FY 2003	....	[10] 26.80	(4)	26.80	84,965	104,932	100,262	379,475
FY 2004	....	[10] 28.24	(4)	28.24	17,610	17,610	16,850	59,670
SBIC New Market Venture Capital								
FY 2002	14.47	(5)	....	....	....	....	....	1,150
FY 2003	15.46	(5)	....	....	....	....	....	1,950
FY 2004	16.05	(5)	....	....	....	....	....	12,260
Secondary Market Guarantee								
FY 2004	....	[11] 0.39	....	0.39	43,818	149,085	147,029	38,008,032
Other Independent Agencies								
Export-Import Bank of the United States:								
Short, Medium, and Long Term Guarantees and Insurance Program								
FY 1992	4.95	4.02	0.60	−1.53	−13,778	−630,445	....	8,102,397
FY 1993	4.00	−2.06	−0.02	−6.04	−104,823	−660,303	....	10,187,672
FY 1994	4.52	−2.04	0.25	−6.81	11,224	−1,392,855	....	9,439,964
FY 1995	5.62	−3.80	0.57	−9.99	−47,804	−931,234	....	5,489,677
FY 1996	7.50	0.36	0.09	−7.23	6,051	−791,528	....	6,449,940
FY 1997	7.51	−1.92	0.22	−9.65	−72,765	−1,383,308	....	8,412,789
FY 1998	6.82	1.75	−0.34	−4.73	−88,835	−962,809	....	6,922,799
FY 1999	5.13	−0.06	....	−5.19	−12,794	−1,265,202	....	11,373,918
FY 2000	7.90	0.26	....	−7.64	−157,702	−1,424,539	....	9,691,465
FY 2001	8.77	1.36	....	−7.41	−116,876	−1,006,876	....	9,966,407
FY 2002	7.18	1.48	....	−5.70	−204,285	−192,567	....	8,293,852
FY 2003	3.06	−0.65	....	−3.71	−26,826	−26,826	....	5,442,442

Chair SNOWE. Thank you, Mr. Tuvin. Thank you.

I know, Mr. Betancourt, you have to leave at noon, so I will quickly get to you in a couple of questions. You have a plane to catch.

Ms. Sands.

STATEMENT OF PATRICIA SANDS, OWNER OF SPILL-GUARD AND PARTICIPANT OF THE SBA'S WOMEN'S BUSINESS CENTER PROGRAM

Ms. SANDS. Good morning, Madame Chairwoman Snowe.

Chair SNOWE. Who by the way is the only small business owner here; right? Welcome. Now you can tell us the practical applications of all of this.

Ms. SANDS. Thank you for inviting me to speak about my business in regard to the Women's Business Center of Northern Virginia.

I am Patricia Sands, the CEO of Spill-Guard. Spill-Guard is a one-member, women-owned, home-based LLC that is located in Arlington, Virginia. My product is Spill-Guard male urinal and my storefront is the Internet. It is the only hands-free male urinal on the market that tests 500 percent improved over typical products. I am proud to say that Spill-Guard is American-made and produced in Leominster, Massachusetts.

I am sure you are wondering why a person would design a urinal and no doubt it was an unusual endeavor for a low-income mother of three.

My product and business idea came from seeing a need in my life. In the years past, I cared for severely ill family members. As a military war widow, I cared not only for my husband, but also for my father that had a 10-year stroke recovery. I did not know it at the time, but I was gathering great market research in the field of incontinence. I know the patient, the problems, the cost and the exhaustion of caregivers.

From this bank of experience as a caregiver and my training in design, I put my mind to the task of exploring a more stable urinal. With several paper mache prototypes and revisions, the design came together quite quickly.

However, the patent, the engineering, the manufacturing and the distribution has taken 5 years to be at the startup. It has taken all of my efforts and funds. I believe in it for I know it will help others.

My family knows that this seemingly insignificant product has the ability to enhance the health of the patient by drastically reducing the incidence of urine spills and bed sores. Right now that product choices for severely ill patients are limited to typical urinals, adult diapers and internal and external catheters. There is no product like mine on the market for price and performance.

Spill-Guard will lower the labor and material costs for facilities. And yes, this product will benefit Medicare with the baby boomer generation entering their golden years. For example, incontinence is the No. 1 reason for admission into a nursing home. The fact is, this one simple product can positively impact an $11 billion a year industry in the U.S. and $175 billion worldwide, according to the S&P.

But it is not enough to have a good idea. I am a middle-aged woman with a low-income and an art degree and that is strike three in the business world. That is why I am here before you today. I took classes with the Women's Business Center of Northern Virginia and with sustained advice and services, I wrote a business plan and learned the basic skills on how to structure the future of my business.

I have had to readjust my plan almost on a monthly basis. What I thought would unfold did not, characteristic of most entrepreneurial adventures. With the Women Business Center of Northern Virginia, I have had magnificent professionals that have helped me make wise choices and new plans.

For example, last year I had a series of crushing events that could have ended my business. The largest event was I was not notified of my factory in New Hampshire closing without honoring my purchase orders. I lost all of my customers. Yet, with encouragement planning, I kept going.

Right after the move to the new molder, it was apparent that my mold needed a modification. This modification was both costly in time and money and I was wondering about the feasibility of my business and the endless string of delays and costs.

Once again I turned to the Women's Business Center of Northern Virginia and discussed options. Within a short time period we came up with a workable strategy to recover from this upset and unexpected cost. And the Women's Business Center did not stop there as a source of report. I received a do not give up, you are almost there from the entire staff. As you can tell, I value their expertise, but their friendship as well.

The caliber of their classes and expertise brought credibility to my venture. Spill-Guard has won many awards. Spill-Guard was awarded the Business Plan of the Year Award, the Rising Star Award, and the Most Valuable Player for Microenterprise. My business and my association with the Women's Business Center has been documented in such distinguished publications as the Chronicle of Philanthropy.

The reason I am here today is because of their continued support. They are committed to my success. And when you are associated with so many people that want you to succeed, you are already a winner.

Where is my business now? It is shipping. After a year of delays and setbacks, my product started shipping in July. I have had 100 percent outstanding customer satisfaction. Yet I had a problem. I lacked the marketing budget due to the cost of modifications and several kids that required food. I knew I needed to find another way to get the sales moving.

To view my competition, I went to MedTrade. MedTrade is a National products convention in Orlando. At first I was overwhelmed by the size and cash-flow of my competitors. But after I caught my breath, I visited each of them and realized I had no competition. I clearly had the better product. What I needed was to attach an engine to my business and associate with a distributor.

I then approached McKesson Surgical and Medical in Richmond, Virginia. Without hesitation, I was offered a distribution agreement. The product managers knew instantly the benefit of my design. Can you imagine the feeling of taking an idea from a paper mache model to the board room of a Fortune 16 company for health care and they say yes? It is the American dream all over again.

And it does not end there. McKesson has indicated they want to deepen our association with the dialog of a private label for this and other products that will follow.

You can be assured I will stay in touch with the Women's Business Center of Northern Virginia, as well as my lawyer, for each step that is unfolding. I am excited about the future and still watching my step. Truly, I am at a critical point and no one is more aware of the fact than I am.

I plan on moving ahead and am expecting this product to bring in steady revenue with my association with McKesson. I am in their catalog and I am stocking their warehouses at this time. But it is a leap of faith.

For example, in working with a small business, an industry giant like McKesson needs to be sensitive and pay on the agreed 30-day net in order for my company to build. I have no doubt that they will honor their word, as I pick my associations carefully. But as the owner, I will bare my soul here and tell you what I am facing. The shipping alone for this small order could be close to $10,000. And there are no deep pockets behind me ready to save the day.

Another concern is keeping my design safe from other businesses that would attempt to prey on my small business status and infringe on my patent as I gain in the marketplace. Again, it is a critical time to manage the risk and plan the growth.

In fact, I am utilizing the Women's Business Center again to plan for this growth and have started a dialog for a potential second short-term loan. You see, the Women's Business Center is not only able to give invaluable information and support for startup, but their expertise lends itself to the second stage of development and planning.

As recently as last week I met with an expert there that is counseling me through the steps of 8(a) small disadvantaged business certification. Is a daunting and detailed task that we are breaking into sections. She is troubleshooting my data and advising me on how to proceed for I fully understand the benefit in leveling the playing field to sell products to the Federal Government.

As you can imagine, as a military widow, my preferred customer will be the Veterans Administration. I want Spill-Guard available and affordable to those who truly needed. I would say to any listening, I would be grateful to any connections, introductions or suggestions you might have to make this happen with haste.

I am an example of the positive impact of the Women's Business Center program. It is imperative that this service, support and program be available to others. The American people need affordable training to be able to learn new skills. I did not have the luxury of time and money to pursue an MBA. But I needed the skills to go to the next level and pursue my idea.

Why is this important? Historically, ideas and innovation come from small businesses. The strength and backbone of America is with its small business. Jobs are created through small business. It is worth investing in.

Worried about the deficit? No. Worry about the drain of untrained and unemployed workforce in the future. The cost in so many directions will be high if we do not pull our center and get our grass roots economy growing again. Our presence is being felt around the world, but will our children have the freedom and opportunity to thrive here?

Think about it. Only in America could a low-income widow with three kids have the nerve and the opportunity to find a place in the billion-dollar medical field. The decisions you make in the Senate and the Government at large impact those opportunities.

True, I am not there yet. I have many turns to make and pitfalls to avoid. But I made it to the marketplace. I have no doubt that I will move from a low-income status to paying a whole lot of taxes because I am wealthy.

This can happen with other potential businesses as well, if we continue to support the Women's Business Center. Over and over again we have heard concerns about the economy, concerns about our labor force not having skills, concerns about the takeover of big business and concerns about jobs leaving our country. They are valid concerns. How can we build a solid business structure here with our foundation in another country? We cannot. It will fall. We have to invest in growing our businesses and strength here.

In conclusion, it is exciting to hear a good story about your next-door neighbor trying to forge ahead. It is the American dream unfolding again. Right now, I am being watched and lifted up as an example to thousands of kids and low-income people. They see it can still be done. I hope to be in a position to help others in the future and give back what has been so generously given to me. It is a ripple effect.

Funding the Small Business Administration programs like the Women's Business Center of Northern Virginia is like planting seeds for the future growth of our country. It is a small investment in comparison to the whole of our budget that reaps great and positive returns. With the funding being cut, I am afraid you will hear fewer success stories in the future. Maybe it is time for America to revise its business plan. It is not too late.

Thank you for inviting me here. I am honored to be in your presence and have the opportunity to express my thoughts. I know I speak for all the American people in thank you for your fine service and powerful decisions that keep America strong.

[The prepared statement for Ms. Sands follows:]

STATEMENT OF PATRICIA SANDS, OWNER OF SPILL-GUARD, ARLINGTON, VIRGINIA

Good Morning, Madame Chairwoman Snowe, Ranking Member Kerry, and distinguished Members of this Committee. Thank you for inviting me to speak about my business in regard to my association with the Women's Business Center of Northern Virginia. I am Patricia Sands, the CEO of Spill-Guard. Spill-Guard is a one member, woman-owned, home-based LLC that is located in Arlington, Virginia. My product is Spill-Guard Male Urinal and my storefront is the Internet. It is the only hands-free male urinal on the market that tests 500 percent improved over typical products. I am proud to say Spill-Guard is American made and produced in Leominster, Massachusetts.

No doubt, it was an unusual endeavor for a low-income mother of 3. My product and business idea came about from seeing a need in my life. In the years past, I cared for my severely ill family members. As a military war widow I cared not only for my husband, but also for my Father that had a 10-year recovery from a stroke. I did not know it at the time, but in caring for them; I also was gathering great market research in the field of incontinence. I know the patient, the problems, the cost and the exhaustion of the caregivers.

From this bank of experience as a caregiver and my training in design, I put my mind to the task of exploring how to create a more stable male urinal. With several paper mache prototypes and revisions . . . the design came together quite quickly. However, the patent, the engineering, the manufacturing and the distribution has taken almost 5 years to be just at the startup phase! It has taken all my efforts and funds. I believe in it, I know it will help others. My family knows that this seemingly insignificant product has the ability to enhance the health of the patient by drastically reducing the incidence of urine spills and bedsores. Right now, the product choices for a severely ill patient are limited to typical urinals, adult diapers and internal and external catheters. There is no product like mine on the market for price and performance. Spill-Guard will lower the labor and material costs to the facilities. Yes, this product will benefit Medicare with the growing baby boomer generation entering their golden years. For example, incontinence is the No. 1 reason for admission into a nursing home. Spill-Guard can assist in keeping a patient in his own home longer by effectively managing his care with dignity. The fact is, this one simple product can positively impact an $11 billion a year industry in the U.S. . . . $175 billion worldwide according to S & P.

But it is not enough to have a great idea. I am a middle-aged woman with a low income and an art degree . . . that is strike three in the business world! I needed a plan and I needed business skills. That is why I am here before you today. I took classes with the Women's Business Center of Northern Virginia. With the sustained advice and services of the Women Business Center of Northern Virginia, I wrote a business plan and learned the basic skills on how to structure the future of my business. I have had to readjust and change my plan almost on a monthly basis. What I thought would unfold . . . did not; characteristic of all entrepreneurial ventures. With the Women's Business Center of Northern Virginia, I had magnificent professionals that helped me make wise choices and new plans.

For example, last year I had a series of crushing events that could have ended my business. The largest event was that I was not notified of my factory in New Hampshire closing without honoring my purchase orders. I lost all my customers at that time. Yet, with encouragement and planning I kept going. Right after the move to the new molder, it was apparent that my mold needed a modification. This modification was both costly both in time and money.

Truly, I was wondering about the feasibility of my business and whether the seemingly endless string of delays and costs would ever end. Once again I turned to the Women's Business Center of Northern Virginia and we discussed options. Within a short period of time, we came up with a workable strategy to recover from this upset and address any unexpected costs. And, the WBC didn't stop there, as another source of support, I received a "Don't give up . . . you are almost there," from the entire staff of the Women's Business Center. As you can tell, I value not only their expertise, but their friendship as well.

The caliber of their classes and expertise bring credibility to the venture. Spill-Guard has won many awards. Spill-Guard was awarded the Business Plan of the Year Award, the Rising Star Award and the Most Valuable Player for Micro Enterprise Award. My business and association with the Women's Business Center has been documented in such distinguished publications such as the Chronicle of Philanthropy. The reason I am here today is because of the continued support of the Women's Business Center. They are committed to my success. When you are associated with so many people that want you to succeed . . . you are already a winner.

Where is my business now? Shipping! After a year of delays and setbacks, my product started shipping last July. I have had 100 percent outstanding customer satisfaction. Yet, I had a problem. I lacked the marketing budget due to the cost of the modifications and several kids that required shoes and food etc. I knew I needed to find another way to get the sales moving. To view my competition, I went to MedTrade. It is the national medical products convention in Orlando. At first I was overwhelmed by the size and cash-flow of my competitors. After I caught my breath . . . I visited each of my competitors and realized I have NO competition. I clearly had the better product. What I needed was to attach an engine to my business and associate with a distributor. I then approached McKesson Medical Surgical in Richmond, Virginia. Without hesitation, I was offered a distribution agreement. The product managers knew instantly the benefit of my design. Can you imagine the feeling of taking an idea from a paper mache model to the boardroom of a Fortune 500 Company and they say . . . YES! It is the American dream all over again. It doesn't end there. McKesson has indicated they want to deepen our association and begin a dialog about the creation of a private label for this and my other products that will follow. You can be assured that I stay in touch with The Women's

Business Center of Northern Virginia as well as my lawyer for each step that is unfolding. I am excited about the future and am still closely watching my step . . . so l don't fall. I have come too far. Truly, I am at a critical point and no one is more aware of that fact than I am.

I plan on moving ahead and expecting this product to bring steady revenue with my association with McKesson. I am in their catalog and will be stocking their warehouses at this time. It is a leap of faith of sorts. For example, in working with a small business, an industry giant like McKesson needs to be sensitive and pay on the agreed 30-day net in order for my company to build. I have no doubt that they will honor their word. But as the owner, I will bare my soul here as an example of what I am facing in the near future . . . the shipping ALONE for this order could be close to 10K. There are no deep pockets behind me ready to save the day. Again, this is a critical time to manage the risk and plan the growth for my business.

In fact, I am utilizing the Women's Business Center again to plan for this growth and start a dialog for a potential second short-term loan. You see the Women Business Center is not only able to give invaluable information and support to a startup business, but their expertise lends itself to the second stage of development and planning. As recently as last week, I met with an expert there that is counseling me thorough the steps of applying for 8a and Small Disadvantaged Business certification. It is a daunting detailed task that we are breaking into sections. She is troubleshooting my data and advising me on how to proceed. I fully understand the benefit in leveling the playing field to sell products to the Federal Government. As you can imagine, as a military widow, my preferred customer will be the Veterans Administration. I want Spill-Guard available and affordable to those that truly need it. I would say to those listening, that I would be grateful to any connections, introductions or suggestions you might have to make this process happen with haste. I am very grateful that so much of our government works to serve the public good.

I am an example of the positive impact of the funding of the Women's Business Center program. It is imperative that this service, support and program be available to others. The American people need affordable training to be able to learn new skills. I did not have the luxury of time and money to pursue an MBA. But I needed the skills to go to the next level and pursue my idea. Ideas and innovation comes from small business. The strength and backbone of America is with its small businesses. Jobs are created through small business. It is worth investing in. Worried about the deficit? No—worry about the drain of an untrained and unemployed work force in the future. The cost in so many directions will be high if we don't pull center and get our grass roots economy growing strong again. Our presence is being felt around the world, but will our children have freedom and opportunity to thrive HERE?

Think about it . . . only in American could a low-income widow with 3 kids have the nerve and the opportunity to find a place in the billion-dollar medical products field. The decisions you make in the Senate and government at large impact the opportunities given to its tax paying citizens. True, I am not there yet—I have many turns to make and pitfalls to avoid . . . but I made it to the marketplace and I am being taken darn seriously. I have no doubt that I will move from low-income status to paying a whole lot of taxes because I am wealthy! This can happen with other potential businesses as well if we continue to support the Women Business Center program. Over and over again we have heard concerns voiced over the economy, concerns about our labor force not having skills, concerns about the takeover of big businesses and concerns about jobs leaving our country. These are valid concerns. How can we build a solid business structure here with our foundation in another country? We can't. It will fall. We have to invest in growing our own businesses and strengths here.

In conclusion, it is exciting to hear a good story about your next-door neighbor trying to forge ahead . . . isn't it? It is the American dream unfolding again. Right now, I am being watched and lifted up as an example to thousands of kids and low-income people. They see it can STILL be done. I hope to be in a position to help others in the future myself and give back what has been so generously given to me. It is a ripple effect. Funding the Small Business Administration programs like the Women's Business Center of Northern Virginia is like planting seeds for future growth of our country. It is a small investment in comparison to the whole of our budget that will reap great and positive returns. With the funding being cut I am afraid you will hear fewer success stories in the future. Maybe it is time for America to revise ITS business plan? It is not too late.

Thank you for inviting me here today. I am honored to be in your presence and to have the opportunity to express my thoughts. I know I speak for all the American people in thanking you for your fine service and your powerful decisions that will keep America strong.

I am happy to answer any questions you may have.

Chair SNOWE. Thank you, Ms. Sands. That is certainly a powerful statement and a powerful example.

[Applause.]

Chair SNOWE. American ingenuity and courage, as well.

Ms. SANDS. Thank you.

Chair SNOWE. No, thank you for a fine example. I wish the Administrator had the opportunity to hear your testimony. We will send it over to him and we will make connections for you. It is the least we can do.

Mr. Betancourt, I know you have to leave.

Mr. BETANCOURT. I would be happy to stay until 1:00, just so you know. There is no rush.

Chair SNOWE. I will start with you, in case you have to leave.

On the Microloan program, I think it is important to clarify some of the issues that were raised here. We know the 7(a) Community Express program will not serve to fill that vacuum without the Microloan program. Do we agree on that? Based on the statistics that you have given, what did you say, how many States does it operate in? There are very few lenders. There are zero in Maine, for example, a small business State.

Mr. BETANCOURT. Rural is one big issue. It is obvious it is not achieving its objective in the rural areas. Less than 6 percent are reaching rural areas.

Chair SNOWE. There is less than 6 percent rural areas at a time when rural areas desperately need support.

Mr. MASSAUA. Senator, if I may, he is looking for the number, one of the problems with Community Express as it is supposed to provide some technical assistance. However, most of the banks want the technical assistance providers, like the SBDC or the Women's Business Center, to indemnify them of anything. That is an impossibility.

Mr. BETANCOURT. It is 5.7 percent in rural areas for Community Express.

Chair SNOWE. It is clear that the 2,400-plus participants in the Microloan program are not going to be able to be served, for example, by the 7(a) Community Express program. Obviously, I gather there are different criteria too, as well. These are people who are probably not going to be able to be eligible with conventional lenders are they? It is more difficult to qualify for borrowing.

Mr. BETANCOURT. It is more difficult to qualify for 7(a). The credit is an issue. If you look at the application process, there is no technical assistance other than helping you with the application. If you are a business owner, like she mentioned over here, if you need help with a business plan, that is not going to happen. You just will not get the application. We are talking about two different borrowers.

Chair SNOWE. I gather that. If you are saying only 5.7 percent serves rural areas and 40 percent of Microloans go to rural areas, then obviously it is a totally different goal.

Mr. BETANCOURT. I think where the statistics do not show it for Community Express is that they will tell you that they do X amount of loans under $35,000 in the thousands. And it is true. But they are still not reaching Microloan borrowers. You can do loans under $35,000, but these are not startups. These are not rural areas. These are not folks with credit. These are not people of color. It is a totally different borrower. It is pretty clear.

Chair SNOWE. I know he mentioned that it is duplicative with the Microloan program, but they are both going to be eliminated in that budget.

[Laughter.]

Chair SNOWE. There will not be any duplication there.

Mr. BETANCOURT. Let us talk about PRIME for the moment. One of the issues that we are talking about in Microloan is access to capital. PRIME is providing access to training. Especially, very low-income borrowers.

It is great to have—in-lending, because we are a microlender, but there are a lot of folks that may not need lending, because lending is not the end goal necessary; the end goal is helping them have a stronger business through technical assistance. And that is what PRIME does. The fact that they restricted it last year just to 16 States, and our organization, AEO, opposed. They crippled that program and now they want to eliminate it.

Chair SNOWE. Mr. Coit, tell me about the SBIC. You mentioned the Participating Securities and it is obvious from the budget recommending—as you said in your testimony, closing the negotiations on this issue, at least that has been the proposal—not to move forward because they have not provided any leverage within the budget for Participating Securities.

What would be the impact of all of that for small businesses? Where will the disparity and the equity gap that you referred to occur, do you think? Would it be more pronounced in rural America or anywhere as a result of not having access to this venture capital?

Mr. COIT. Yes. The simple answer is probably rural America, the smaller size investments, the gap between angel investors, and the rest of the institutional venture capital industry. There really is a gap in there in terms of the size of investments. And by industry. There are just some industries that the venture capital industry does not finance. I think the statistics are particularly strong for manufacturing and consumer and retailing. So those gaps would exist.

Chair SNOWE. You were mentioning in your testimony that you thought, at least estimated, that it would require about $80 million on the part of SBA between 2006 and 2010?

Mr. COIT. No.

Chair SNOWE. For leverage? For leverage in the Participating Securities? You did not give an estimate?

Mr. COIT. Oh, for the existing licensees, yes.

Chair SNOWE. For the existing licensees.

Mr. COIT. That is a separate problem that the existing licensees who really built their business plans around having access to leverage, that has not been authorized either. So that is a problem for existing licensees.

Chair SNOWE. I understand, there are two issues there.

Mr. COIT. Just to get back to your earlier question, we are concerned to have a more specific answer for your question about this equity gap. And we have hired the Tuck Center for Private Equity and Entrepreneurship and they are working, actually in part with SBA, to try to come up with some more statistical data that actually defines the gap. As part of my written testimony I submitted a letter from NVCA—this is the National Venture Capital Association—making a very strong case for the SBIC program. This is a letter to the President of the United States saying that this gap exists.

So there is no argument from the rest of the industry about the gap. There is the need for some specificity and we are going to try to be more specific and more quantitative in our analysis and hope to have that report to you by March.

Chair SNOWE. That would be great. We will be looking forward to it. I think it is important to illustrate. I think so often talking in numbers, there is no question that many of these programs have worked well, as the Administrator has indicated. But we are sort of moving in the wrong direction in terms of the trend.

But more than that is that we have not looked at how many more can be served. We are looking at how many we are serving, but what is the need, especially in rural America. And I get back to that.

I know I represent a rural State, but so much of America is rural. And even, as you mentioned, the urban areas. We need to do something more than just sort of have a benign approach to this. So many rural economies, so many economies, are suffering in America. We are going to have to serve as a catalyst.

So it seems to me that we ought to be infusing those programs that work well. It does not make sense to me. These numbers sound large. They are great. They are wonderful. I would like to be able to compare it to what would be the capacity to do more and want we could do more to serve a lot more of America than we are doing now because we are moving in a contrary direction.

It is counterintuitive in my view. If it is working well, why are we cutting it? Especially with the need. There is a great need in America. Everybody loves those macroeconomic numbers, but my eyes glaze over because it does not tell the story for all of the individual areas of America. That is true overall, but there is so many parts of America, and I know that is true in Maine, as John was just describing, is the fact that many areas are suffering and they need help.

These are the programs that help. Look at the HUBZone. They want to fold that into something else. And that helps an economically distressed area in my State in Northern Maine that did suffer from base closings. This is not the time to be pulling the rug out from underneath them.

So in any event, that is what this is all about. I do not know why we are putting the reins on a program rather than not allowing it to foster more growth. That is the issue here.

So that would be very useful if we could show regionally how many areas are being underserved.

I think to see it on a map, to see what areas are not being served that otherwise would be served, the SBIC, for example, how it is has been able to help those areas that otherwise would be overlooked and there is nothing available for them.

I think is crucial to this debate, it is central, because it is so easy to get into all these big numbers and percentages. It gets lost about, well, who is not being served? I think we will see the enormity of the problem. Especially in so many parts of the country that are not participating in this economic growth.

Mr. COIT. We will certainly make sure that the Tuck study addresses that issue.

Chair SNOWE. I think it would be very important. If there is any way of doing it and calculating it, it would be very helpful.

Ms. Sands, you certainly are an eloquent example of the value of the Women's Business Center. You are referring to the Northern Virginia Women's Business Center which is in the sustainability mode, which is to say that, according to the budget that we just were presented from the Administration, that that would essentially be zeroed out. They would have to find alternative funding.

That is one of the issues because as you heard the Administrator, he wanted to talk about creating new centers. And I think that that is important, to create new centers across America.

By the same token, for the last 9 years we have made enormous investments in these 49 centers that we would like to continue and ensure they can.

Obviously, just listening to your story, you depended on that center at various points during your trial and error process of being a women business owner. So they could have been there 1 year, but gone another time, and you might not have had the opportunity to have the benefit of their help and support at a key moment in time.

Ms. SANDS. That is correct. That is correct.

I understand he was saying the model was 5 years, but I think that needs to be revised because the program is working and there are people like me that are depending on centers just like that. And to eliminate it and create it in another area would take so much effort that it would just completely leave a huge community of business owners in Northern Virginia without services and programs.

I agree new centers need to open, but I definitely would keep the existing ones where they are.

Chair SNOWE. What was your time period from the time you started until now? How long have you been a business owner? You started Spill-Guard, for example.

Ms. SANDS. I started the provisional patent in 2000. I incorporated in 2003, LLC. So it is been a 5-year almost process, four-and-a-half year process. And it has been a long one.

The Women's Business Center made me look credible to large companies. I was not just a widow with three kids. I definitely had a good firm plan and it was just enough to get me in the door.

Chair SNOWE. It is amazing with what you had to deal with personally, and also having your children, to muster the wherewithal to also start your own business. That is a lot of perseverance.

I congratulate you. Just the enormity of your personal challenges, your family challenges, the loss of your husband. That is remarkable. I certainly applaud you. I am very impressed by your story. Thank you for your contribution here today. We want to help you and we will continue to do that and have you work with my staff.

Ms. SANDS. Wonderful. Thank you. I appreciate it.

Chair SNOWE. Mr. Tuvin, in the 7(a) program, you heard the Administrator this morning. I think one of the surprises recently was about the fact they recalculated the subsidy rate for the fee that now we find is just a third of what it was originally. You are absolutely right, now we are calculating a higher fee for the future, based on the miscalculation?

Mr. TUVIN. We are waiting for SBA to provide for us sort of a cross-walk that they promised us, just to tell us what it is all about, so that we can compare what 2005 is going to look in comparison to 2006 and why they seem to feel this is necessary.

Chair SNOWE. You saw the chart that I had up there on the 118 percent over the last 3 years. It seems to me that is the trend they are embracing, more fees, zero subsidy rates. I think it really does point to the fact that it is going to create the haves and have-nots in the business community, in the small business community because there are a lot of businesses that may not be able to do it or be eligible because of paying for these high rates and the lenders and so on.

It could have, I think, a counter-impact. That seems to be the trend among all of these programs as we have seen with the zero subsidy rate and the higher fees. Obviously it is a greater dependency.

Mr. TUVIN. I concur, that there does not seem to be common sense associated with the decision process of how they are thinking and the direction that they are moving with the program. It is a unique program. It is not filled by other private lending needs in the marketplace. And the demand is obvious. Just basic economics tells us that there is a supply and demand. There is a huge demand for it and it is way more than what we are providing in the first place.

Chair SNOWE. They underestimated the demand last year, which I and others told them as well, that they were underestimating the demand of the 7(a). And they did, by 33 percent, last year.

Mr. TUVIN. I was here. I heard you try to give them more money. They did not want it.

Chair SNOWE. They did not want it. That is right. They did not want it. I asked them that question, very directly, that they were just underestimating the demand. And they did not. We went through all of those travails, regrettably, and the small business community and the lenders really felt the brunt of that.

So, with all the suspensions and everything for the whole appropriations process, it was just really regrettable because it clearly could have been avoided. So I think that now we have to be concerned about the accuracy of these fees and how they are calculated and what they are calculating for the future.

Mr. TUVIN. Please. We are looking forward to seeing what they have to say and hoping that we can regain the trust of the marketplace and some of the credibility that was lost from the whipsaw motions of the programs opening and closing and changing and so on. That would really help us in the marketplace.

Chair SNOWE. That is a good point, too, in terms of confidence and credibility in the community. That is a very good point.

Mr. TUVIN. I would be good and interested in this report, not only from a geographic context of where these loans are benefiting or where there are gaps, but also by industry as well. Because, as you know, the programs that are provided through the SBA do not only provide reasonable access to capital on reasonable terms, but in fact, long-term capital that would not otherwise be available. And to the extent that a person starting a business does not see conventional debt offerings, which—you know, conventional lenders and banks take money in on short-term deposits so they tend to loan out on short-term loans and bullets and these sorts of structures, which we consider to be ineligible and unreasonable under SBA provisions. So that what we are really concerned about is where the gaps are filled. And there are a lot of places where the SBA loan programs fill gaps. These people come to me. They have been turned down before. I am the one in the field. They did not come to me because they had five other options. They came down because they have been all over the country, in some cases, looking for loans they could not get elsewhere.

Chair SNOWE. Good point. That is exactly right and that is the purpose. That is a very good point. That is exactly right. Otherwise, you were mentioning about China—that is the other thing. We are in a competitive world, I guess John was mentioning that, when you are talking about these research programs, the technology research programs that we have, the STTR and the innovation research in the competitive world that we live in, we have to be trying to nurture that base, as well.

You are right, it fills a need that otherwise would not be filled. That is the interest of Government. that is why we have the Small Business Administration. It fills that need a way that cannot be done solely in the private sector. So you have this public-private partnership to make it work.

It is undeniable. The need is there and the demand. The question is to what extent we can get them to fulfill that because I think it would help the entire Nation's economy. It would, no doubt, especially manufacturing jobs.

I mentioned Maine. We have lost 18,000 jobs almost in the last 4 years. It is been devastating. China is a giant in the marketplace and it has dwarfed a lot of our manufacturing industries, as we know with the trade deficit. So it clearly is ever more important. It does not take a lot to make these programs work, and work well.

Mr. TUVIN. It is a lot of common sense.

Chair SNOWE. That is the problem, too much common sense on Capitol Hill. It does not compute.

John, just some final questions. You made very good points and it is really critical for the SBDC program where you are saying level funding of $88 million simply is not going to work because inflation has eroded your ability to do the work.

Mr. MASSAUA. It will not work. We have been able to maintain our clients increasingly. I suspect when we do our research this year, we are probably not going to see the corresponding economic development because the push on SBA is to get people in, get people in, see more numbers. Where our push is to get economic impact, create jobs, get capital formation.

With a decline in hours across the country, which is the beginning of the trend which will continue to happen if we cannot get enough dollars. Centers are closing, and we are going to see an adverse effect very readily in the economic numbers.

Chair SNOWE. You were saying that generally you would serve clients 7 to 15 hours?

Mr. MASSAUA. For the clients that we typically see economic success with, it takes 7 to 15 hours of intensive counseling with them.

Chair SNOWE. What is that reduced to now, or at least what do you anticipate?

Mr. MASSAUA. What it would be reduced to, if we are trying to keep the same client numbers in, we are down below 5 hours on average, 3 hours. That is not enough time. In many cases, it is just an hour. "Here it is, thank you very much." We just cannot do that.

And where we are working with technology companies, where there is patent and intellectual property, it typically takes 30 to 50 hours of intensive counseling.

We just need to be able to reach a common sense of funding—if you will—which is why we are only asking to put us back where we were in 1998.

Chair SNOWE. To have that purchasing power, as I understand it, in 1998 you essentially need grants of $603,000?

Mr. MASSAUA. We would need $603,000 to have 1998 purchasing power.

Chair SNOWE. So $109 million is what you are calculating now?

Mr. MASSAUA. It is what we need for the SBDC program Nationwide to get the big flat States to the $600,000, which is 1998. Otherwise, we will have to cut the program.

Chair SNOWE. So that is going to reduce the number of hours, reduce the number of people you are going to serve and counsel, which is important to the success?

Mr. MASSAUA. It is extremely important in Maine because where do you cut? The size of the State is huge.

Chair SNOWE. I know. Exactly. It gets back to this whole dichotomy in America or in any event, and all the stories that have been written about rural America in general and the outlying or urban areas. What the case is, there is a huge need. What better way to serve it?

Also, in helping even with the income gap in America. That is the other part of it is helping people to have better paying jobs or income. Many people are self-employed. They have gone that route when they have lost their jobs with companies, which many people have had to do in Maine. We know that. People take their own—as you have, Ms. Sands—take your destiny in your own hands and said I have an idea and I am going to go with it. So it is important to all of us to make sure that can happen.

Does anybody else have anything to say? I have heard your comments and I think they are well taken. We will continue this discussion, obviously.

I truly appreciate all of your input and insights. I thank you for your time in traveling here today. I truly appreciate it. I thank you all for joining us.

The Committee is going to continue to work with SBA with all of you who represent the small business community to make sure that we rightfully apply the appropriate amount of money to these programs that have served our Nation's small businesses so well.

I thank you for all the great work that you do. It is extraordinary.

The record for this hearing will remain open for an additional 2 weeks, until noon on March 3. In addition, any written questions for Administrator Barreto must be submitted to the Committee by noon on February 24 and we will forward them to Mr. Barreto for written responses.

Again, thank you all for joining us here this morning.

This hearing is adjourned.

[Whereupon, at 12:35 p.m., the hearing was adjourned.]

Appendix

FISCAL YEAR 2006 BUDGET REQUEST FOR THE U.S. SMALL BUSINESS ADMINISTRATION

"SERVING AMERICA'S SMALL BUSINESSES AND CREATING ECONOMIC OPPORTUNITY"

BUILDING ON SUCCESS

America's small businesses play a vital role in creating opportunities and leading the economic recovery, generating two-thirds of all net new jobs.

The Small Business Administration (SBA) is helping to create an environment in which entrepreneurship can flourish by strengthening our Nation's new and existing small businesses.

An historic number of small businesses used the SBA for credit assistance in FY2004, resulting in a record number of loans backed by the Agency, including significant increases in the number of loans to women, minorities and veterans.

The SBA's FY 2006 request is good for America's small businesses and American taxpayers. It offers an opportunity to work together with our Congressional partners to ensure that the SBA continues to assist small businesses.

FY2006 BUDGET REQUEST

$592.9 MILLION

This budget request provides for a strong, active SBA that can effectively and efficiently meet the demands of its customers, America's small business entrepreneurs, while minimizing the cost to the American taxpayer.

STRENGTHENING SBA BUSINESS CREDIT PROGRAMS

7(A) LOAN PROGRAM

The SBA requests $16.5 billion in lending authority for its 7(a) loan program – almost a 25% increase over last year's request. The 7(a) subsidy rate for FY2006 remains at zero, meaning the 7(a) program can guarantee $16.5 billion in small business loans without requiring a taxpayer subsidy.

<u>504 LOAN PROGRAM</u>
SBA requests the authority to provide $5.5 billion in loans through its 504 Certified Development Company (CDC) program also with no taxpayer subsidy.

The 504 program, which was established to increase small businesses' access to real estate and other long-term fixed asset financing, continues to have job creation as an important program goal.

<u>SBIC DEBENTURES</u>
$3 BILLION PROGRAM LEVEL with zero subsidy rate. SBA is asking for $3 billion in debenture authority for the Small Business Investment Company program.

<u>GOVERNMENT CONTRACTING AND BUSINESS DEVELOPMENT</u>

<u>CONTRACTING ASSISTANCE</u>
SBA will be working more closely with other Federal agencies, ensuring their contracting practices maximize opportunities for small businesses while still providing a good deal for the taxpayer. Through the ePCR (Electronic Procurement Center Representative) and ESRS (Electronic Subcontracting Review Systems) systems, SBA will have more tools to monitor prime and sub contracts to ensure small businesses are given adequate opportunities to contract with the Federal government. SBA's budget request contains $83 million for contracting assistance and business development activities.

<u>HUBZone Program</u>
Congress expanded access to this program in the recent SBA reauthorization bill. SBA fully intends to support this program in the Agency's FY '06 budget. SBA by providing $7 3 million in support for the HUBZone program, providing resources that keep the program strong without hampering our ability to meet challenges and serve all of our customers' needs.

<u>BUSINESS MATCHMAKING</u>
Through the Business Matchmaking Initiative, SBA will put more small businesses in touch with procurement officers at all levels of government and in the corporate sector. The one on one meetings facilitated through these events provide small business owners an opportunity to speak directly with the decision makers.

CORE PROGRAM INVESTMENTS

SBA continues to advocate for greater efficiency and better quality of services to small businesses by consolidating delivery of services to small businesses through the Agency's core non-credit programs.

The budget more effectively provides for a full range of technical assistance by using its core national delivery programs. The budget submission proposes that the Agency work through its primary infrastructure of 111 Women's Business Centers, 4 Veterans Outreach Centers, 389 SCORE chapters, 1163 SBDCs and 68 district offices. They can reach more customers and offer higher levels of service to targeted constituencies and, by eliminating the duplication and excess bureaucracy, can do it more effectively.

DISASTER ASSISTANCE PROGRAM

This budget request also includes continued funding for the agency's Disaster Loan Program at an **$ 810 MILLION** program level, which represents a 5 year average.

The SBA works very closely with the Federal Emergency Management Agency to assist those small businesses and individuals directly affected by disasters such as tornadoes, floods and hurricanes.

OFFICE OF ADVOCACY

SBA's budget includes $9.1 million for the Office of Advocacy. This funding will allow Advocacy to fully staff its regional operations, train federal agencies on Regulatory Flexibility Act compliance, and research, document and report to Congress on small business matters.

In FY '06, the Office of Advocacy expects to save small business **$5.6 billion** in potential regulatory costs.

SBA'S FY 2006 LEGISLATIVE PACKAGE SUMMARY

SBIC STATUE OF LIMITATIONS

- MODIFIES THE STATUTE OF LIMITATIONS APPLICABLE TO SBIC IN BANKRUPTCY PROCEEDINGS IN ORDER TO PROTECT TAXPAYER INTERESTS.

SBDC COMPETITION

- ALLOWS OUTSIDE COMPETITION FOR GRANTS AND AWARD GRANTS BASED ON PERFORMANCE. THIS WILL IMPROVE PERFORMANCE RESULTS AND PROVIDE A MORE COST EFFECTIVE AND RESPONSIVE PROGRAM.

SCORE

- THIS PROVISION CLARIFIES THE TITLE OF THE SCORE PROGRAM. SCORE WILL NO LONGER BE AN ACRONYM FOR THE SERVICE CORPS OF RETIRED EXECUTIVES.

HUBZONE AMENDMENTS

- NON-METROPOLITAN COUNTIES THAT QUALIFY BASED UPON UNEMPLOYMENT WILL BE REEVALUATED ON A FIVE YEAR RATHER THAN A ONE YEAR CYCLE.

CHANGES TO PENALTY PROVISIONS IN THE SMALL BUSINESS ACT

- UPDATES FINES AND PENALTIES FOR FALSE CERTIFICATION UNDER THE SBA ACT, INCREASING FINES TO $250,000.

TECHNICAL CORRECTIONS

- CORRECTS TECHNICAL DRAFTING ERRORS IN DIVISION K OF THE OMNIBUS APPROPRIATIONS ACT (P.L.108-447).

SECONDARY MARKET FEE

- ALLOWS SBA TO CHARGE A FEE ON LOANS SOLD INTO THE SECONDARY MARKET IN ORDER TO COVER THE COSTS OF PROMPT PAYMENT GUARANTEE PURSUANT TO THE CREDIT REFORM ACT.

DEFINITIONS

- AMENDS THE DEFINITIONS OF "SMALL BUSINESS LENDING COMPANY" AND "NON-FEDERALLY REGULATED SBA LENDER" FOR THE PURPOSES OF SBA'S REGULATORY AUTHORITY UNDER SECTION 23 OF THE SMALL BUSINESS ACT.

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

FEB 08 2005

The Honorable Richard Cheney
President of the Senate
Washington, DC 20510

Dear Mr. President:

On behalf of the U.S. Small Business Administration (SBA), I am pleased to submit a proposed legislative package for your consideration. The package is divided into two parts: i) the Statement of Needs and Purposes, and ii) the proposed statutory text, which amends the Small Business Act and Small Business Investment Act to improve existing SBA programs, clarify authorities and implement new SBA initiatives consistent with the President's Fiscal Year 2006 Budget.

The proposed changes to the Small Business Act and Small Business Investment Act would include the following:

- Extend the statute of limitations applicable to SBIC claims.
- Authorize outside competition for certain grants and award such grants based on performance.
- Clarify the title of SCORE and authorize non-volunteer staffing.
- Re-evaluate non-metropolitan HUBZone counties on a five-year cycle rather than a one-year cycle.
- Increase penalties for certain violations of the Small Business Act.
- Correct drafting errors in the Small Business Reauthorization and Manufacturing Assistance Act of 2004 (P.L. 108-447, Division K).
- Authorize SBA to charge a fee on 7(a) loans sold on the secondary market; and
- Amend the definitions of "Small Business Lending Company" and "non-federally regulated SBA lender."

The Office of Management and Budget advises that there is no objection to the submission of this proposal to the Congress, and that its enactment would be in accordance with the President's agenda.

Sincerely,

Hector V. Barreto
Administrator

Enclosures

SBA's FY 2006 Legislative Package
Statement of Needs and Purposes

The following are descriptions and rationale for the legislative proposals. Our proposals are in line with the themes in our budget submission: we will be results-oriented and citizen-centric, and places an emphasis on market-based solutions. Please note that "(FY05)" indicates the proposal was included in the FY 2005 legislative package submitted to Congress in April 2004

TITLE I. CAPITAL ACCESS.

Sec. 101. SBIC Statute of Limitations

- Extends the statute of limitations applicable to SBIC claims to protect taxpayer interests. The provisions in the Small Business Investment Act pertaining to SBIC enforcement and regulation resemble the enforcement tools provided in section 1821(d) of the Financial Institutions Reform Recovery and Enforcement Act (FIRREA). This is particularly true in the area of liquidating financial institutions through federal court receiverships. Similar to section 1821(d)(4), the proposed section would extend the amount of time during which SBA is permitted to take legal action on claims it inherits from SBICs. As a result, SBA would have more time to identify, examine and make claims which it might not otherwise pursue due to limited time and resources. The proposed section would also authorize SBA to revive expired claims under state law arising from fraud, unjust enrichment or intentional misconduct resulting in a substantial loss to the Agency.

TITLE II. ENTREPRENEURIAL DEVELOPMENT.

Sec. 201. Small Business Development Center Competition

- Authorizes outside competition for grants and award grants based on performance. (FY05) This will improve performance results and provide a more cost effective and responsive program

Sec. 202. SCORE

- Clarifies the title of SCORE. This amendment reflects the fact that SCORE is no longer an acronym for the Service Corps of Retired Executives, but the name of a non-profit entity, and that the Active Corps of Executives (ACE), which has not been active for several years, is obsolete.

- Authorizes non-volunteer staffing for SCORE

TITLE III. GOVERNMENT CONTRACTING/BUSINESS DEVELOPMENT.

Sec. 301. HUBZone Amendments

- Areas designated as qualified non-metropolitan counties based upon unemployment will be reevaluated on a five-year cycle rather than a one-year cycle. Non-metropolitan counties that qualify for HUBZone status based upon income and census tracts are reevaluated every ten years as part of the decennial census. Unemployment data is calculated and evaluated annually. Based on yearly unemployment swings, counties may gain or lose status on an annual basis. Change to a five year cycle would provide a more reasonable time frame for small business investment return and economic development in the area.

TITLE IV. MISCELLANEOUS AMENDMENTS.

Sec. 401. Changes to Penalty Provisions in the Small Business Act

- Increases fines and penalties for false certification under the Small Business Act up to $250,000.

Sec. 402. Technical Corrections.

- Corrects three drafting errors in the Small Business Reauthorization and Manufacturing Assistance Act of 2004 (P.L.108-447, Division K) (Reauthorization Act). The first correction restores a provision regarding privacy protections for employees in drug-testing programs that was incorrectly deleted under the Reauthorization Act. The second correction fixes a phrasing error in the HUBZone program. The last correction strikes a prohibition that would adversely affect debenture SBICs licensed after September 30, 2004.

Sec. 403. Secondary Market Fee

- Authorizes SBA to charge a fee on 7(a) loans sold on the secondary market in order to cover the costs of SBA's prompt payment guarantee. SBA is statutorily obligated to make interest payments to investors in secondary market loans in a timely fashion. However, when a loan in the secondary market defaults SBA currently has no offsetting collection to pay for that defaulted interest. The fee would provide a source of funds to enable SBA to cover payments in accordance with the Federal Credit Reform Act.

Sec. 404. Definitions

- Amends the definitions of "Small Business Lending Company" (SBLC) and "non-federally regulated SBA lender" for the purposes of SBA's regulatory authority under section 23 of the Small Business Act. SBLCs are lenders that only make SBA 7(a) loans. Non-federally regulated SBA lenders are institutions that are not subject to regulation by federal financial oversight agencies.

U.S. SMALL BUSINESS ADMINISTRATION
FY 2006 LEGISLATIVE PACKAGE

TITLE I. AMENDMENTS TO SMALL BUSINESS INVESTMENT ACT

Sec. 101. SBIC Statute of Limitations.

(a) Section 311 of the Small Business Investment Act of 1958 (15 U.S.C. 687c) is amended by adding new subsections (d) and (e) as follows:

"(d) Notwithstanding any contractual provisions to the contrary, the applicable statute of limitations with regard to any action brought by the Administration based on a claim formerly held by a current or former licensee shall be the longer of

"(1) the period provided for in sections 2415 and 2416 of title 28, United States Code; or

"(2) the expiration of six years for contract claims and three years for tort claims following the date that such claim is assigned to the Administration.

"(e) (1) In the case of any tort claim described in paragraph (2) of this subsection for which the statute of limitations applicable under state law with respect to such claim has expired not more than 5 years before the assignment of such claim to the Administration, the Administration may bring an action on such claim without regard to the expiration of the statute of limitation applicable under State law.

"(2) A tort claim referred to in paragraph (1) is a claim arising from fraud, intentional misconduct resulting in unjust enrichment, or intentional misconduct that causes actual damages of $100,000 or more."

(b) The heading for section 311 of the Small Business Investment Act of 1958 (15 U.S.C. 687c) is amended to read as follows:

"INJUNCTIONS, OTHER ORDERS AND STATUTES OF LIMITATIONS"

TITLE II. ENTREPRENEURIAL DEVELOPMENT

Section 201. Small Business Development Center Competition.

Section 21(b) of the Small Business Act (15 U.S.C. 648(b)) is amended by striking paragraphs (1) and (2), redesignating paragraph (3) as paragraph (2), and by adding a new paragraph (1) to read as follows:

"(1) (A) Each applicant organization shall submit a 5-year plan to the Administration identifying the geographic area to be served, the services that it would provide, the method for delivering services, a budget, and any other information and assurances the Administration may require to ensure that the applicant will carry out the activities eligible for assistance. A recipient organization may receive financial assistance under this section for a period of no more than 5 years per award. However, nothing in this subparagraph shall preclude a prior recipient organization from participating in the selection process set forth in subparagraph (B) below.

"(B) At the conclusion of each 5-year project period, the Administration shall solicit new applications for financial assistance from eligible recipients located in the affected State. Any awards of assistance issued by the Administration pursuant to such solicitations shall be made on a competitive basis. In implementing this requirement, the Administration is authorized to phase in the competitive selection of award recipients in a series of annual or semi-annual rounds. In no event shall the first such round commence more than 2 years, or the final round commence more than 5 years, after the effective date of this subparagraph. In determining both the number of selection rounds to utilize and the number of solicitations to include in each round, the Administration will take into account the applicant's resources and staffing, geographical distribution, and the estimated number of applicant organizations. The Administration will use these factors to identify which solicitations will participate in each selection round."

Section 202. SCORE.

(a) Section 8(b)(1)(B) of the Small Business Act (15 U.S.C. 637(b)(1)(B)) is amended by striking the phrase "a Service Corps of Retired Executives (SCORE) and an Active Corps of Executive (ACE) for the purposes of section 8(b)(1)(A) of this Act" in the first sentence and replacing it with the word "SCORE".

(b) Section 8(b)(1)(C) of the Small Business Act (15 U.S.C. 637(b)(1)(C)) is amended by striking the phrase "subparagraphs (A) and (B)" and replacing it with "subparagraph (B)".

(c) Section 8(b)(1)(E)of the Small Business Act (15 U.S.C. 637(b)(1)(E)) is amended by striking the reference to "(A)" and replacing it with "(B)".

(d) Section 8(b)(1)(C) of the Small Business Act (15 USC 637(b)(1)(C) is amended by striking the "and" at the end of paragraph (ii) and by striking the "." at the end of paragraph (iii) and inserting "; and", and by adding the following new paragraph:

"(iv) By hiring and paying such non-volunteer employees as may be necessary to support such volunteers."

TITLE III. GOVERNMENT CONTRACTING/BUSINESS DEVELOPMENT

Section 301. HUBZone Amendments.

Section 3(p)(4)(B)(ii)(II) of the Small Business Act (15 U.S.C. 632(p)(4)(B)(ii)(II)) is amended by adding the following new sentence at the end:

"The designation of an area as a qualified nonmetropolitan county based on unemployment will be reevaluated every five years from the date of designation as a qualified nonmetropolitan county."

TITLE IV. MISCELLANEOUS AMENDMENTS

Section 401. Changes to Penalty Provisions in Small Business Act.

(a) Section 16(a) of the Small Business Act (15 U.S.C. 645(a)) is amended by:

(1) inserting after the word "loan" the following: "made by the Administration or by a participating lender under section 7(a) subject to a guaranty by the Administration.";

(2) by deleting "$5,000" and inserting "$250,000".

(b) Section 16(b) of the Small Business Act (15 U.S.C. 645(b)) is amended by:

(1) in the first sentence, inserting after "being" the following: "an officer, agent or employee of or"; and

(2) deleting "$10,000" and inserting "$250,000".

(c) Section 16(c) of the Small Business Act (15 U.S.C. 645(c)) is amended to read as follows

> "Whoever, with intent to defraud, knowingly conceals, removes, disposes of, or converts to his own use or to that of another, any property mortgaged or pledged to, or held by, the Administration, or any property mortgaged or pledged as security for any promissory note, or other evidence of indebtedness, which the Administration has guaranteed or is obligated to purchase upon tender, shall be fined not more than $250,000 or imprisoned not more than five years or both; but if the value of such property does not exceed $1,000, he shall be fined not more than $5,000 or imprisoned not more than one year or both."

Section 402. Technical Corrections.

(a) Section 126 of Division K of P.L. 108-447 is amended by:

(1) deleting "27(c)" in the first sentence and replacing it with "27(d)" and

(2) deleting "(c)" and inserting instead "(d)".

(b) Section 3(p)(4)(D)(iv) of the Small Business Act (15 U.S.C. 632(p)(4)(D)(iv)) is amended by deleting "base closures of redevelopment" and inserting "base closures or redevelopment"

(c) Section 308(b) of the Small Business Investment Act (15 USC 687(b)) is amended in the last sentence by striking, "is licensed before October 1, 2004 and"

Section 403. Secondary Market Fee.

Section 5(g)(4)(A) of the Small Business Act (15 U.S.C. 634(g)(4)(A)) is amended by designating the existing provision as sub-subparagraph "(ii)", and inserting the following new sub-subparagraph "(i)":

"With respect to the guarantee on the timely payment of the principal and interest on the trust certificates issued under § 5(g)(2), the Administration may assess and collect a fee, at a frequency and amount established by the Administration, that shall, at a minimum, offset the cost (as that term is defined in section 502 of the Federal Credit Reform Act of 1990) to the Administration of such guarantee. Any amounts received that exceed the cost of the timely payment guarantee shall be maintained in accordance with the Federal Credit Reform Act. The Administration may contract with an agent to carry out, on behalf of the Administration, the assessment and collection of this fee."

Section 404. Definitions.

Section 3(r) of the Small Business Act (15 USC 632) is amended to read as follows:

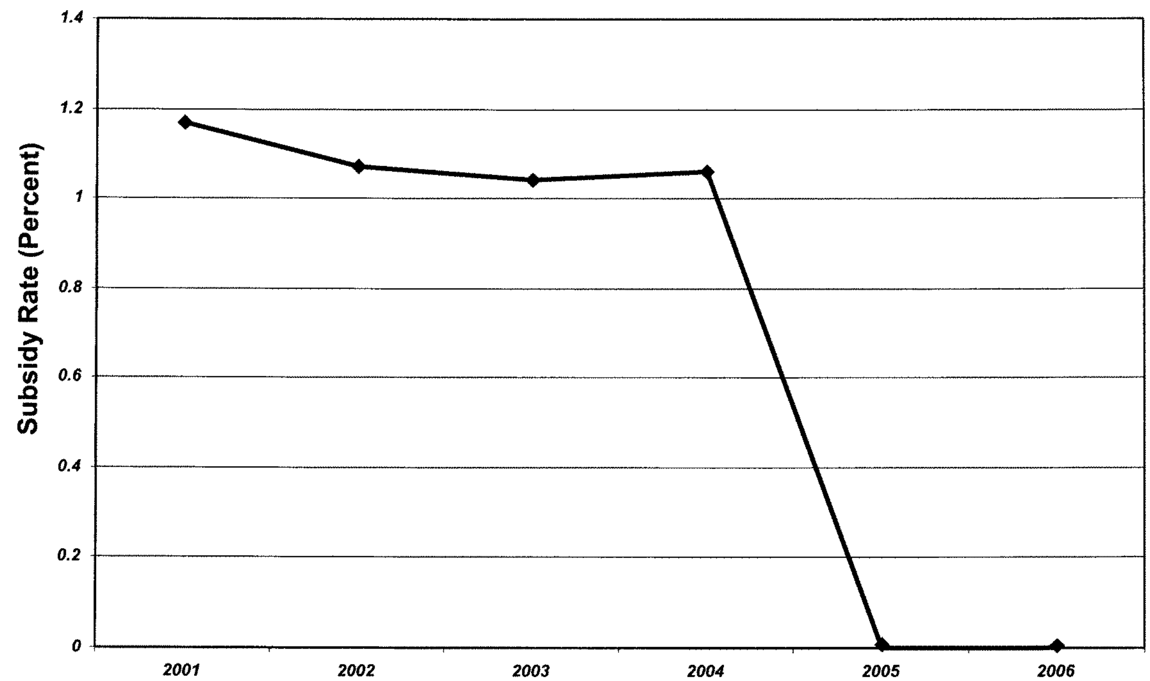
"(r) DEFINITIONS RELATING TO SMALL BUSINESS LENDING COMPANIES.- As used in section 23 of this Act:

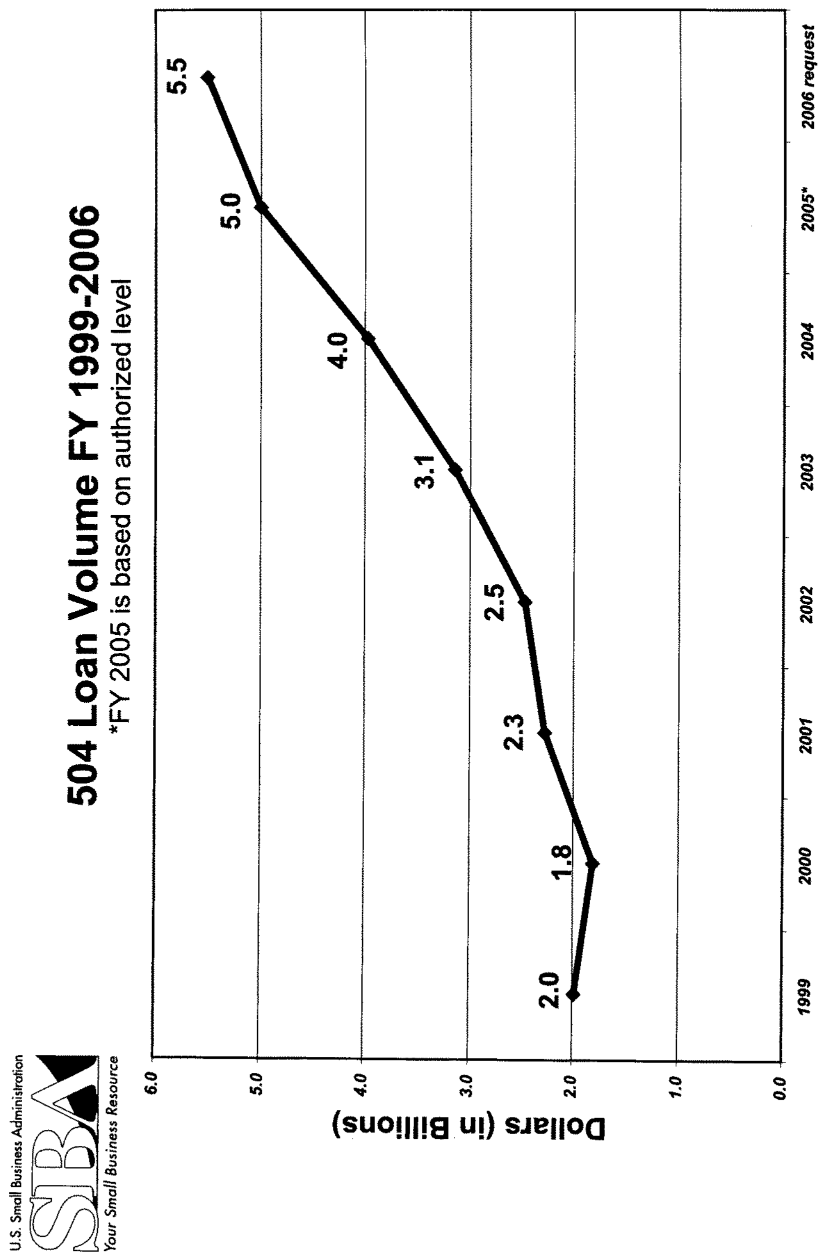
"(1) Small Business Lending Company. -- A financial institution approved by the Administration to only make loans under Section 7 of this Act."

"(2) Non-Federally Regulated SBA Lender - Financial institutions that make loans under Section 7 of this Act, are not Small Business Lending Companies, and are not regulated by the Farm Credit Administration or the Federal Financial Institution Examination Council members (the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Administration)."

U.S. Small Business Administration
SBA
Your Small Business Resource

7(a) Subsidy Rate FY 01-06

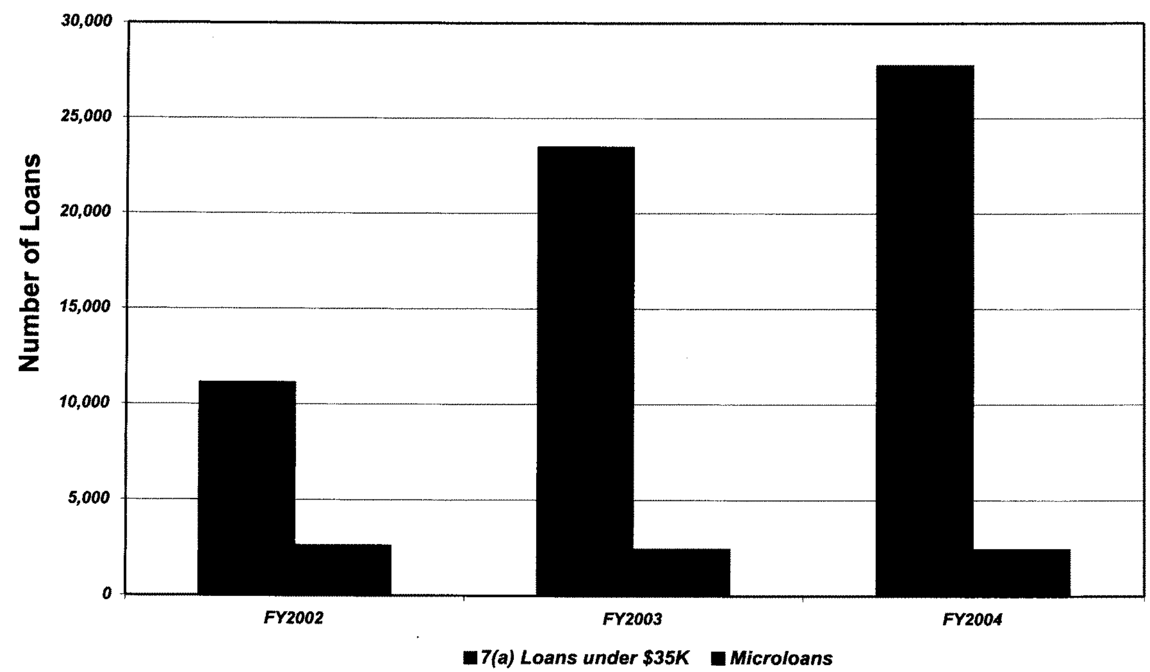


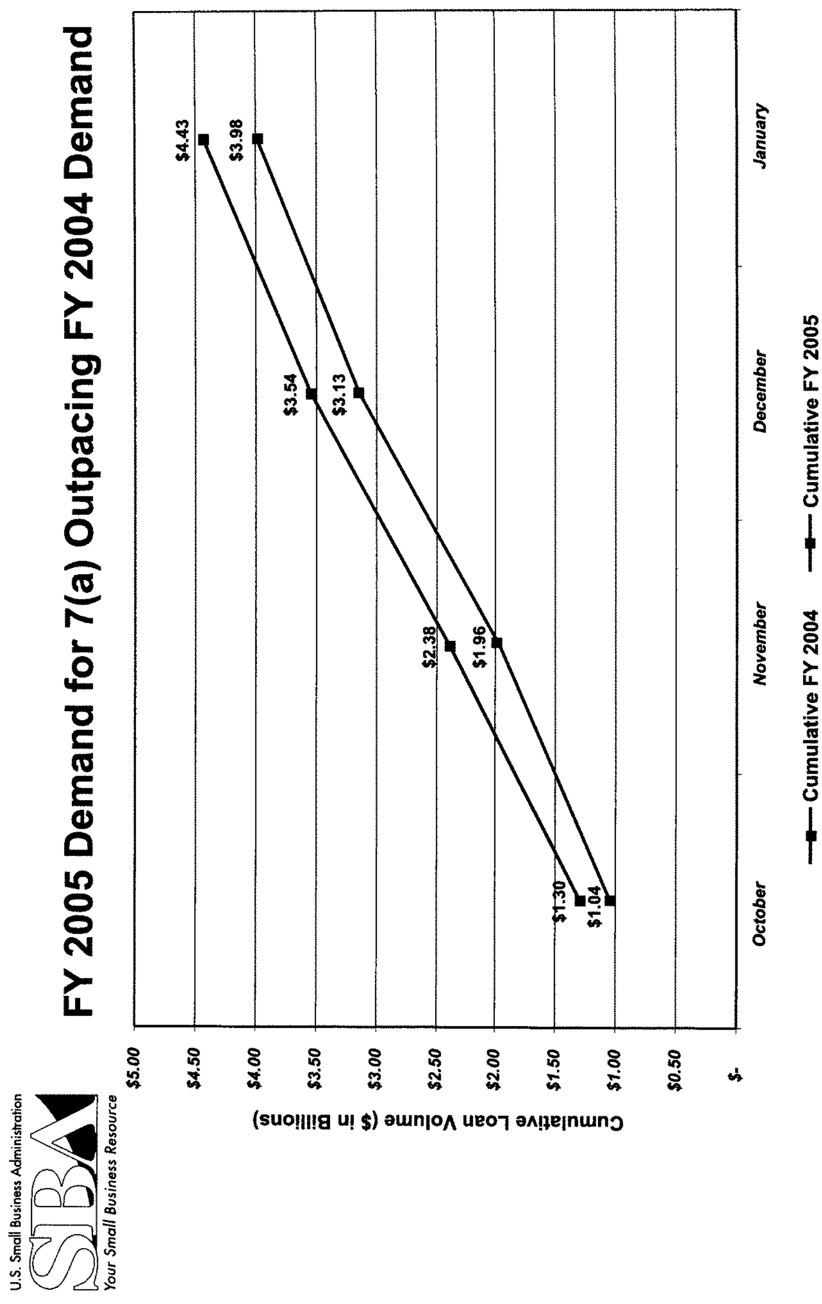

U.S. Small Business Administration
SBA
Your Small Business Resource
504 Loan Volume FY 1999-2006
*FY 2005 is based on authorized level
Dollars (in Billions)
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2.0
1.8
2.3
2.5
3.1
4.0
5.0
5.5
1999
2000
2001
2002
2003
2004
2005*
2006 request

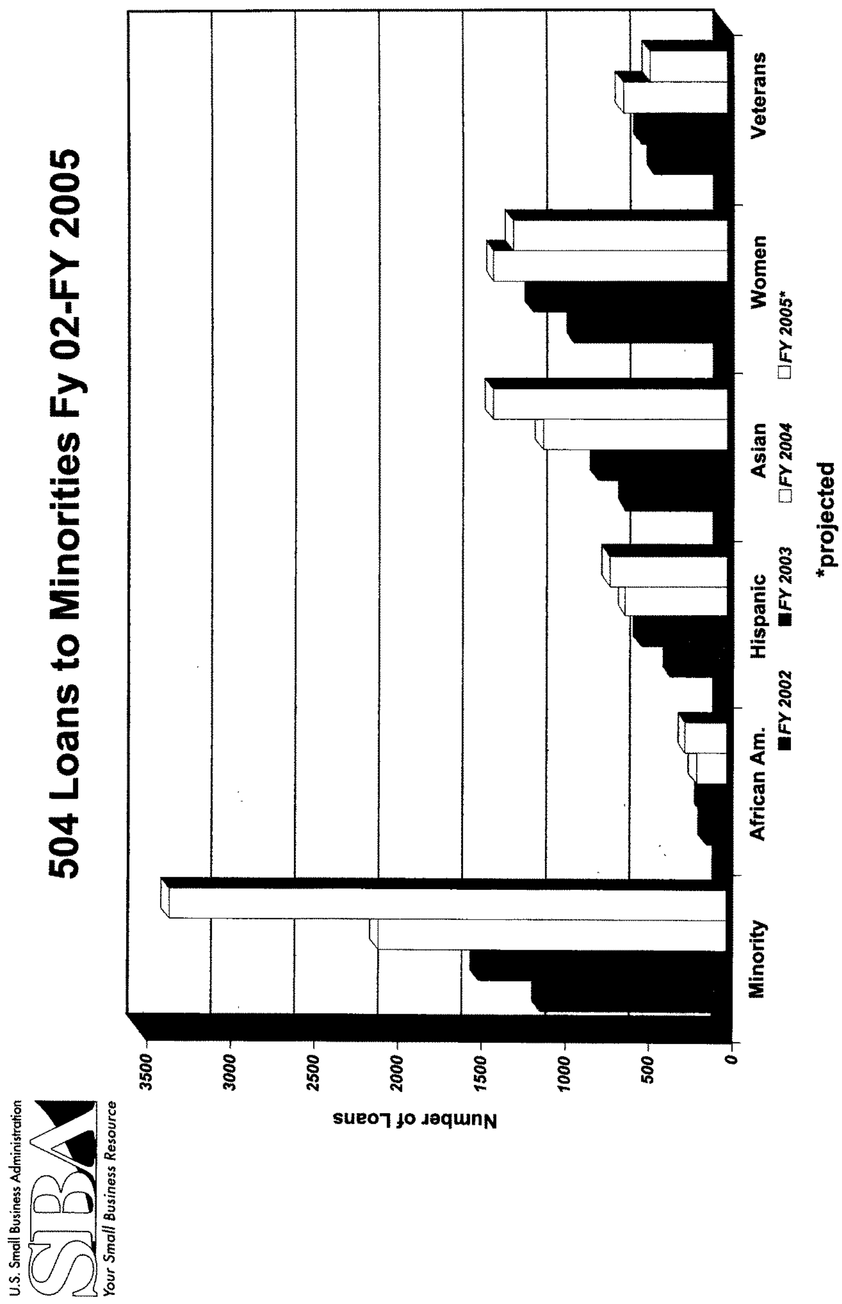
U.S. Small Business Administration
SBA
Your Small Business Resource

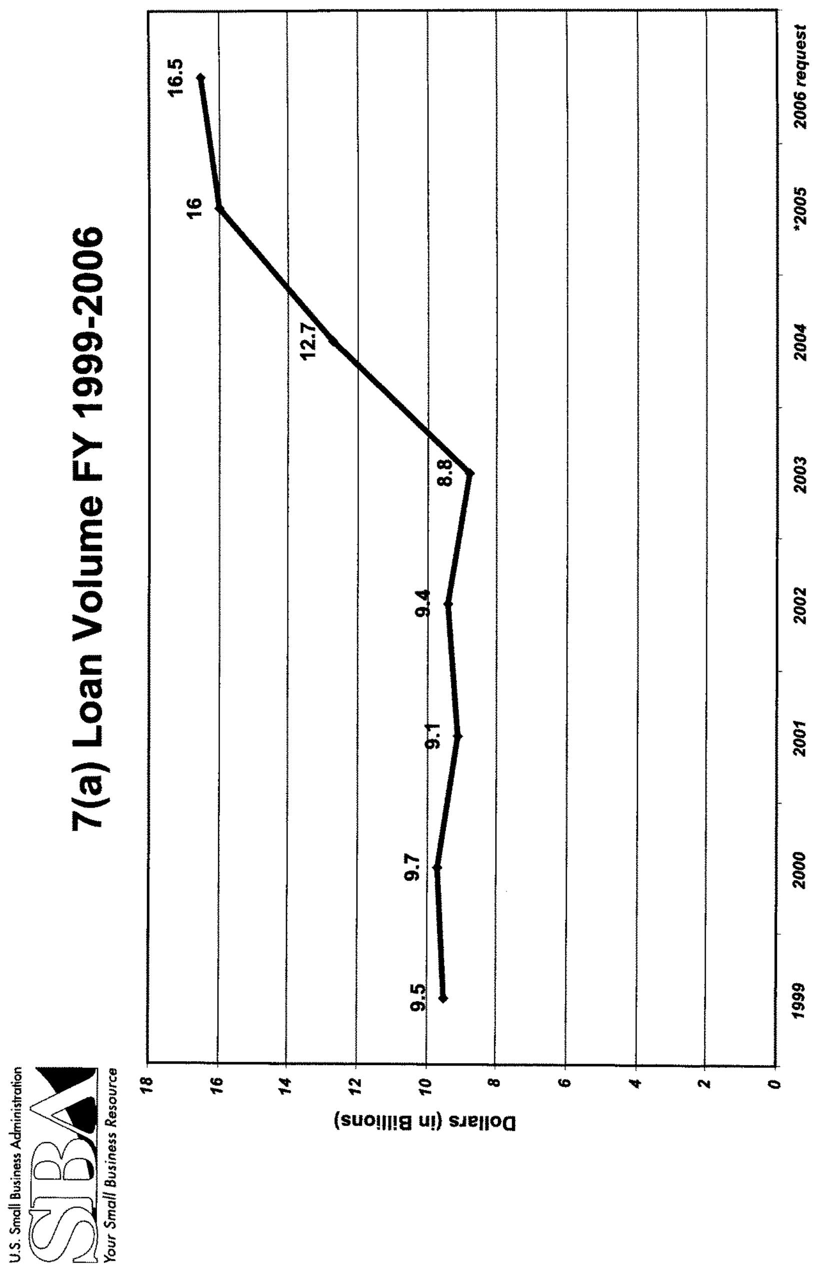
7(a) Loans Under $35,000 vs. Microloans to Small Business Owners

FY 2002-2004




U.S. Small Business Administration
SBA
Your Small Business Resource
FY 2005 Demand for 7(a) Outpacing FY 2004 Demand
Cumulative Loan Volume ($ in Billions)
$5.00
$4.50
$4.00
$3.50
$3.00
$2.50
$2.00
$1.50
$1.00
$0.50
$-
October
November
December
January
$1.30
$1.04
$2.38
$1.96
$3.54
$3.13
$4.43
$3.98
Cumulative FY 2004
Cumulative FY 2005

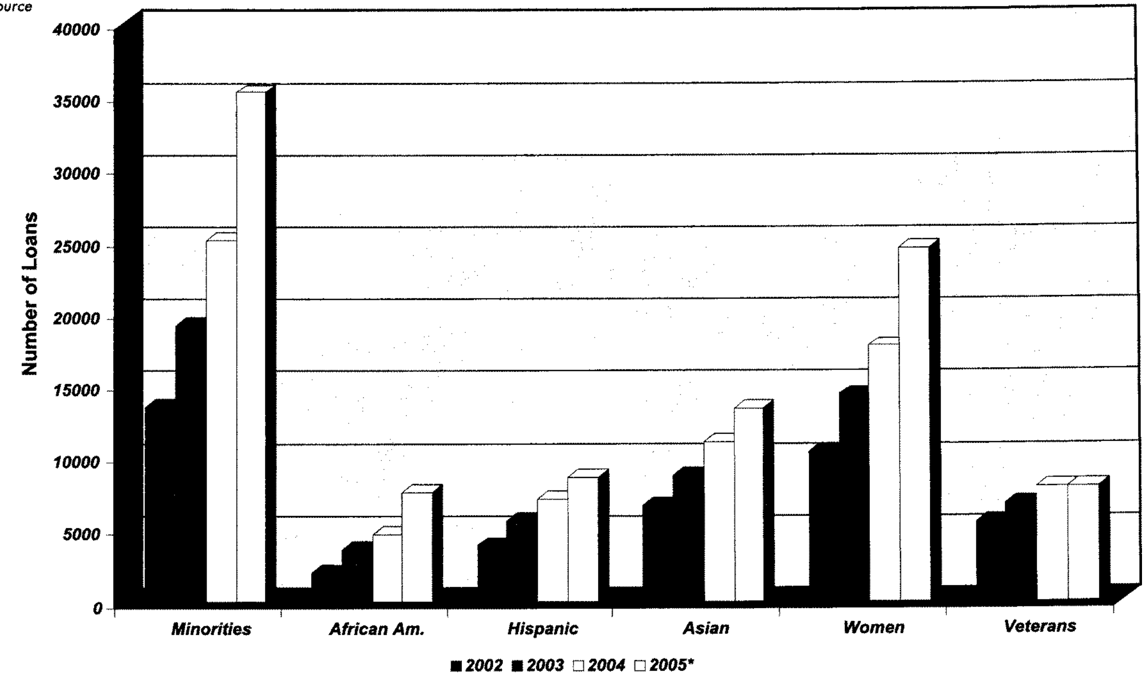

U.S. Small Business Administration
SBA
Your Small Business Resource
504 Loans to Minorities Fy 02-FY 2005
Number of Loans
3500
3000
2500
2000
1500
1000
500
0
Minority
African Am.
Hispanic
Asian
Women
Veterans
FY 2002
FY 2003
FY 2004
FY 2005*
*projected



U.S. Small Business Administration
SBA
Your Small Business Resource
7(a) Loan Volume FY 1999-2006
Dollars (in Billions)
18
16
14
12
10
8
6
4
2
0
9.5
9.7
9.1
9.4
8.8
12.7
16
16.5
1999
2000
2001
2002
2003
2004
*2005
2006 request

U.S. Small Business Administration
SBA
Your Small Business Resource

7(a) Loans to Minorities FY 2002- 2006



* Projected

Microloan Borrowers Attending Hearing

"The President's FY2006 Budget Request for the SBA"
Thursday, Feb. 17, 2005, at 10 a.m.
428A Russell Senate Office Building

Name of Business:	**The Athanor Center**
Business Owner:	Teri Wade
Current Loan Client:	Yes
Business Location:	Fairfax County
Contact Info:	(703) 497-6710 athanorcenter@yahoo.com

The Athanor Center provides Endermologie, which is an FDA-approved massage technique that reduces the appearance of cellulite while energizing and detoxifying the body. Teri committed many hours and weeks to training and business development to ensure the presentation of a quality service. Teri has also utilized several SBA-supported programs and funding sources that were all necessary to bring her dream to fruition as she was unable to find traditional banking support for her business at the start-up phase.

Name of Business:	**Kendal Home Care, LLC**
Business Owner:	Kekelwa Dall
Current Loan Client:	Yes
Business Location:	Fairfax County
Contact:	(703) 573-3852 kendalhomecare@aol.com

Kekelwa is the proud owner of Kendal Home Care, LLC, which provides quality home health and personal care services for clients in their homes, assisted living facilities, nursing homes, hospitals and other facilities. The small business provides caregivers in the form of Licensed RN's, certified nurse aides, home health aides, companions and sitters directly to clients.

Kekelwa Dall immigrated from Zambia. After working at the United Nations and World Bank, she decided to pursue her lifelong interest in community services by starting Kendal Home Care. Researching local demographics, she spotted a need for providing basic healthcare and homecare services to the elderly in Northern Virginia. She turned to Fairfax County's Office for Women first and they pointed her to the Women's Business Center of Northern Virginia. There she has taken classes, received counseling, and met the microloan officer from the Enterprise Development Group from whom she later received a microloan. Kendal Home Care provides health and personal care services not only to the elderly but to patients and others needing care or services due to incapacitation. It is licensed by the Virginia Department of Health.

SBA Responses to Madam Chair Olympia Snowe
Senate Committee on Small Business & Entrepreneurship
"The President's FY 2006 Budget Request for the SBA"
Post Hearing Questions

General SBA Questions:

1. In recent years, our nation has experienced severe job losses in vital sectors such as manufacturing. At times like these, it is imperative that we foster small business growth and success so that our nation's economic engine can continue to provide two-thirds of all new jobs annually. Ironically, while you praise the role of small businesses in our economy, the SBA's budget for lending and technical assistance programs has decreased 36 percent over the last five years. With small businesses being the engine driving economic growth, it is essential that the SBA has the resources to meet their needs. If the SBA's programs are so effective in job creation, why isn't the agency increasing its investment rather than cutting back?

The SBA assistance to small business has increased significantly in the past few years and the FY 2006 budget proposes to continue this trend without the need for increasing taxpayer costs. The Section 7(a) program has grown from $9.8 billion in FY 2001 to $12 billion in FY 2004. The authority level for FY 2005 is $16 billion. The Section 504 program has seen similar growth. In FY 2001, $2.2 billion in 504 loans were approved. Last year, the number was just under $4 billion. This year the program has $5 billion in authority. These increases underscore the Agency's commitment to meeting the needs of the small business community.

The SBA is also helping entrepreneurs create, develop, and expand small business is through our existing core infrastructure of resource partners - the Small Business Development Centers (SBDC), the Women's Business Center (WBC), and SCORE. The SBA's Small Business Training Network, the Online Women's Business Center and SCORE can provide entrepreneurs with answers to their questions and meet their needs without requiring a personal visit to our resource partners. By expanding our core infrastructure of resources partners, SBA conserves scarce resources for loan programs, government contracting programs, and policy and planning. Additionally, through our resources partners, the expansion of SBA's outreach is at record proportions. In 2002, SBA's resource partners touched more than 1.5 million small businesses. In 2003, that number increased to 2.1 million, and in 2004 the total reached 2.4 million. That's 60 percent more small business reached in just 3 years with the same amount of line item funding. Through increased use of technology, as well as other cost effective means, SBA expects this trend to continue.

The SBA will build on its record of creating additional contracting opportunities for small businesses using innovative tools such as the Business Matchmaking program to fulfill its mission to support the Administration in meeting its statutory commitment to provide a fair share of contracting dollars to small businesses. Small businesses received a record number of Federal contract dollars in FY 2003 - $65.5 billion – and exceeded the 23% government wide goal. I am also proud to say that Federal contracting dollars increased for women-owned businesses, 8(a), SDB, HUBZone and Service-disabled veteran-owned firms. In FY 2004, the SBA provided procurement assistance to over 37,000 small businesses. This increase in contract dollars to small businesses combines with such Administration tax policies as lower income taxes, expensing increases, and estate tax, to provide America's entrepreneurs with added success.

2. Specifically how are the SBA's services reaching out to rural communities and rural small businesses?

Local SBA field offices reach out to rural small businesses to make sure that they are aware of SBA programs through its SCORE, WBC, and SBDC offices. In addition, SBA provides a significant amount of information on the Web. The SBA's Small Business Training Network, the Online Women's Business Center and SCORE can provide entrepreneurs with answers to their questions and meet their needs without requiring a personal visit to our resource partners. This information can be accessed easily by rural entrepreneurs. Included on the website, www.sba.gov, is information about small business financing, tools for small businesses to use for business plans as well as other information a small business might need.

3. The SBA proposes to eliminate programs that continue to create jobs, such as the SBA's microloan program, PRIME, and the SBIR and STTR technical assistance programs. In addition, you propose to level fund programs for a fourth consecutive year such as the Small Business Development Centers, Women's Business Centers, SCORE and the Veteran's Business Development Program. The SBA's mission is to strengthen the nation's economy by aiding, counseling, assisting and protecting the interest of small business concerns. So why is the SBA proposing to terminate programs that are creating jobs and putting Americans to work and to level fund programs that continue to show results?

SBA is eliminating the PRIME and Microloan Programs because:

- For a variety of reasons, private sector lenders are far more willing to lend to very small and to start-up businesses. The Agency believes that SBA should not be competing with private sector lenders interested in developing this market. There are now over 540 microlending institutions nationwide that have developed sources of funding beyond SBA's program.
- The Agency also believes that the well established 7(a) program provides an adequate incentive to lenders that feel that risk mitigation is required in order to make smaller loans, including Community Express where the lender provides technical assistance.
- Also, other federal agencies, including the Department of Treasury and the USDA, have microloan programs.
- Microloans are more costly to borrowers than 7(a) loans. The average 7(a) loan's interest rate is 3 or 4 percentage points cheaper than the average microloan. That saves these small borrowers significant amounts of money that they can use on their businesses.

To ensure that the technical assistance needs of Microloan and PRIME clients are met, SBA will turn to its Office of Entrepreneurial Development (OED). During FY 2004, SBA assisted more than 1.4 million clients (but in question #1 we said 2.4 M, as we say 2 paragraphs below) through its OED technical assistance programs which include the SBDCs, SCORE, and Women's Business Centers

SBA is eliminating separate line item requests for SBIR and STTR technical assistance. The funding provided by Congress over the years has been sporadic. Therefore by incorporating that assistance in SBA's established nationwide system of SBDCs, SCORE and WBCs, more entrepreneurs can be served more efficiently.

As mentioned in our response to question #1, under level funding, the expansion of SBA's outreach is at record proportions. In 2002, SBA's resource partners touched more than 1.5 million small businesses. In 2003, that number increased to 2.1 million, and in 2004 the total reached 2.4 million. That's 60 percent more small business reached in just 3 years with the same amount of funding. Through increased use of technology, as well as other cost effective means, SBA expects this trend to continue.

4. What would be the economic impact if the SBA were to increase funding for these programs?

That is impossible to measure. However, the Administration is confident that the FY 2006 funding request will allow SBA to continue building on the expanding reach of these technical assistance programs.

5. For four consecutive years, SBDCs, WBCs and SCORE have exceeded agency goals, reached more customers and provided higher levels of service. Bottom-line, these programs are accomplishing more with less. Would you please explain why that while costs for the program have increased, the SBA still proposes to level fund the SBDCs, WBCs and SCORE?

SBA's entrepreneurial development programs have continually transcended federal budgetary constraints by doing more with less. For this next budget year, we see the opportunity to continue increasing outreach to our clients through efficiencies such as online counseling and training at little additional cost, thus allowing the program to continue to do more within existing funding. We believe that our funding request for FY 2006 will allow SBDCs, WBCs and SCORE to provide the outstanding professional counseling and training that the programs are known for nationwide through the expanded use of technology.

Microloan Program:

1. Please provide the SBA's cost per loan made (to small businesses, not to intermediaries) in the Microloan program (i.e., the ratio of expenditures by the SBA, versus the number of dollar value of loans made to small business in the program).

FY 04 MICROLOAN PROGRAM (in thousands)				
	Number of Loans to Small Businesses	Costs Including Subsidies	Cost per Loan Made	PAR Reference
Strategic Goal 2.1	1,022	$4,846,000	**$4,742**	Page 117
Strategic Goal 2.2	1,377	$3,573,000	**$2,595**	Page 142
Total	2,399	$8,419	**$3,509**	

This chart shows the total costs – admin expenses plus subsidy costs. The subsidy cost is the net expected cost to the government for each loan made (total inflows like fees and recoveries net of total outflows like defaults) *excluding* administrative expenses associated with making the loans. The subsidy amount is appropriated in advance to cover the expected cost of the loan performance. The subsidy amount for Goal 2.1 is $1.268 million and the balance is admin costs; for Goal 2.2, the subsidy amount is $.935 million and the balance is admin costs. None of the numbers shown directly represent loan principal; however, the loan principal amount is a factor in calculating the subsidy amount.

2. What is the total dollar amount that the SBA currently has in outstanding loans to microlending intermediaries?

SBA currently has $98.6 million dollars in outstanding loans to SBA Microlending Intermediaries.

3. How does the Administration propose to address the increased risk placed upon existing loans to small businesses if no new technical assistance funds are provided to the intermediaries managing existing SBA Microloan portfolios?

To foster the continuing development of the micro borrowers and to mitigate the risk of default, SBA will strongly encourage the intermediaries to refer micro borrowers to SBA's extensive network of technical assistance providers, including the SBDCs, SCORE, and the Women's Business Centers. SBA currently provides over $100 million in direct funding for the provision of technical and management assistance to existing and prospective small businesses, with a significant amount of that assistance targeted to very small, fledgling, or underserved small businesses. This funding is augmented by substantial additional funding from the states, and it is further complemented by many additional local community economic development organizations and initiatives. The Agency thus believes these long established and highly experienced resources will mitigate the risk of existing micro borrowers to default.

4. What percentage of SBA Community Express loans go to rural businesses? Please provide some examples of the type of rural businesses that have benefited from the loan product?

In FY 2004, approximately 7 percent of all CommunityExpress loans were made to rural businesses. The four major industries in these rural areas were Retail Trade, Accommodation and Food Services, Professional Scientific and Technical Services, and Other Service Industries.

5. Please provide a breakdown of Community Express loans by each State.

FY2004 CommunityExpress Approvals by State

State	#	Gross Dollars Approved
AL	10	$154,000.00
AR	2	$15,000.00
AZ	58	$5,145,100.00
CA	719	$17,610,600.00
CO	60	$3,581,900.00
DC	90	$555,000.00
DE	21	$157,000.00
FL	147	$1,085,000.00
GA	150	$1,079,000.00
HI	141	$1,098,000.00
IA	10	$426,400.00
ID	1	$5,000.00
IL	129	$2,652,000.00
IN	3	$248,200.00
KS	49	$440,000.00
KY	8	$475,500.00
LA	196	$3,640,500.00
MA	5	$240,000.00
MD	381	$2,818,000.00
ME	-	-
MI	58	$1,310,400.00
MN	35	$2,116,500.00
MO	30	$1,838,500.00
MS	33	$250,000.00
MT	17	$121,000.00
NC	138	$941,000.00
ND	1	$5,000.00
NE	48	$3,639,291.00
NH	1	$75,000.00
NJ	5	$35,000.00
NM	9	$681,500.00
NV	25	$318,700.00
NY	33	$227,000.00
OH	35	$2,804,300.00

OK	103	$1,802,000.00
OR	4	$95,000.00
PA	110	$4,218,100.00
RI	1	$5,000.00
SC	11	$70,000.00
SD	7	$335,000.00
TN	8	$365,000.00
TX	878	$18,384,200.00
VA	214	$1,648,000.00
VT	5	$743,800.00
WA	9	$573,300.00
WI	81	$5,161,100.00
WV	42	$315,000.00
Total	**4121**	**$89,504,891.00**

6. Please provide a breakdown of Microloan loans by each State.

FY 2004 Microloans by State

State	# Approved	$ Approved
Alabama	10	$ 123,500.00
Alaska	0	$ -
Arizona	140	$ 959,322.51
Arkansas	10	$ 105,844.20
California	127	$ 2,243,172.00
Colorado	74	$ 1,087,575.00
Connecticut	45	$ 1,085,161.94
Delaware	0	$ -
Dist. of Columbia	5	$ 58,368.00
Florida	147	$ 791,429.33
Georgia	28	$ 602,050.00
Hawaii	9	$ 52,500.00
Idaho	11	$ 86,700.00
Illinois	20	$ 225,624.08
Indiana	2	$ 38,100.00
Iowa	2	$ 14,900.00
Kansas	45	$ 763,274.00
Kentucky	77	$ 881,759.50
Louisiana	4	$ 80,000.00
Maine	44	$ 891,395.00
Maryland	3	$ 85,000.00
Massachusetts	41	$ 1,058,090.00
Michigan	42	$ 675,090.00
Minnesota	82	$ 1,032,843.53
Mississippi	5	$ 80,500.00
Missouri	70	$ 719,145.93
Montana	4	$ 25,224.03

N Mariana Islands	0	$ -
Nebraska	57	$ 703,860.00
Nevada	15	$ 235,255.00
New Hampshire	13	$ 230,702.45
New Jersey	124	$ 2,505,216.78
New Mexico	16	$ 132,275.00
New York	185	$ 2,870,279.66
North Carolina	103	$ 1,493,446.00
North Dakota	27	$ 480,713.74
Ohio	40	$ 403,716.76
Oklahoma	32	$ 741,037.49
Oregon	25	$ 158,648.53
Pennsylvania	98	$ 2,220,870.92
Puerto Rico	23	$ 630,349.00
Rhode Island	16	$ 314,800.00
South Carolina	6	$ 130,000.00
South Dakota	0	$ -
Tennessee	16	$ 488,000.00
Texas	281	$ 1,694,297.07
Utah	0	$ -
Vermont	15	$ 218,536.55
Virginia	159	$ 2,384,343.86
Washington	44	$ 212,300.00
West Virginia	21	$ 363,500.00
Wisconsin	54	$ 793,973.27
Wyoming	8	$ 48,306.50
All States/Cong. Distr.	**2425**	**$33,220,997.63**

7. The vast majority of Microloan borrowers do not qualify for private sector financing, including government guarantee backed loans. With the proposed elimination of the Microloan program, how does the SBA propose to meet the unique needs of Microloan borrowers--who by definition do not qualify for 7(a)/Community Express loans due to lack of credit, collateral, or business experience?

With the Microloan program's success and its limited loss rate, SBA believes that this program has helped demonstrate the viability of a large segment of these small loans to the commercial lending community, as evidenced by the continuing growth of the CommunityExpress program and the explosive growth of SBAExpress and its large number of relatively small loans. The Agency will continue to expand and enhance the CommunityExpress program and believes that its 75-85 percent guaranty will encourage participating lenders to make increasing numbers of loans that they would not have previously considered.

8. A key component of the SBA Microloan Program is the provision of intensive business technical assistance, which helps to ensure loan repayment, even for the riskiest of borrowers. No other SBA program provides this critical combination of business financing and technical assistance to low-and-moderate income borrowers. In what way is the Microloan program duplicative of other SBA programs, and which other SBA programs provide this duplication?

The Microloan program is a relatively modest program, with only about 2,500 loans approved each year, which compares to the approximately 4,100 approved in FY 2004 under the CommunityExpress program. As a result, SBA believes that its CommunityExpress program with its technical assistance component, can accommodate many if not most of these borrowers, particularly as the Agency continues to expand and enhance this program. Additionally, as noted above, the Agency currently supports a vast, highly experienced and highly capable network of management and technical assistance resources, with a significant amount of that assistance targeted to very small, fledgling, or underserved SBA borrowers. As a result, the Agency is confident that, through its district offices and their available technical assistance resources, the SBA maintains a highly effective and complementary set of technical and financial resources.

9. The Microloan program has successfully made over $250 million in loans too risky for banks, and in so doing has experienced a default rate of less than 1 percent. Industry practitioners, borrowers, and especially the SBA recognize intensive technical assistance as the chief factor contributing to the overwhelming success of the program. Why is the Administration proposing to eliminate this program?

The SBA agrees that the Microloan program and its very limited loss rate have notably demonstrated the viability of very small loans to the commercial lending industry, especially when technical assistance is included. The Agency thus believes that commercial lenders will continue to target this market and, in many cases, use the CommunityExpress program as well as SBA's existing network of technical assistance resources to do so. Additionally, the Agency believes the approximately $100 million it currently invests annually in its technical assistance programs is more than adequate to meet the needs of current and prospective SBA borrowers.

10. The SBA PRIME program is the only SBA technical assistance program aimed specifically at assisting low-and very low-income entrepreneurs. With the proposed elimination of the PRIME program, how does the SBA propose to serve these entrepreneurs?

The SBA will continue to specifically target low income entrepreneurs and/or underserved communities with its vast network of SBA supported and funded technical assistance resources, including the SBDC, SCORE, and the Women's Business Center programs.

11. What is the average FICO score of the owners of the small businesses that received Microloan programs in the years 2000-2004?

SBA does not obtain FICO scores. SBA does obtain SBPS (Small Business Portfolio Solution) scores. The scores measure different things and are not interchangeable. Also, SBA does not obtain origination (at time of approval) scores; but only scores loans in our outstanding portfolio. A loan has to have been disbursed, with dollars outstanding, for SBA to obtain an SBPS score.

12. What is the average FICO score of the owners of the small businesses that received 7(a) Community Express loans in the years 2000-2004?

See the answer to question 11.

13. What is the average FICO score of the owners of the small businesses that received 7(a) Express loans in the years 2000-2004?

See the answer to question 11.

14. Before the SBA decided to propose the elimination of the Microloan program, what other changes to the Microloan program did the SBA consider as ways to reduce costs and increase the efficiency of the program?

The Microloan program is a highly centralized program that is delivered through intermediary lenders. As a result, the Agency's options to reduce costs through greater efficiencies are highly limited, so potential cost reductions revolve around limiting the scope of the program.

15. What were the positive and negative aspects of these other changes?

SBA believes that existing 7(a) loan programs and technical assistance programs would serve those prospective borrowers that would be affected by elimination of the Microloan program. The positive aspects of this would be the savings of the administrative and program costs of the Microloan program. Negatives would include objections by the microloan industry.

Small Business Investment Company Program

1. In the FY 2006 Budget Request the SBA references $2.7 billion in losses in the Participating Securities SBIC program. The supporting tables appear to indicate that the loss total is $2.2 billion before taking into account an interest factor. Is this correct?

Since 1994, SBA has approved $12.4 billion and disbursed $6.2 billion in SBIC Participating Securities guarantees. It is currently estimated that SBA will experience $2.7 billion in net losses over the life of the $6.2 billion in disbursed guarantees, including $922 million identified during the most recent reestimate cycle. Of the $2.7 billion in projected losses, $2.2 billion is due to program performance and $497 million is due to accounting improvements that more accurately reflect performance of loans accounted for in SBA's Consolidated General Ledger during the 1990's. During the most recent reestimate cycle SBA moved to using a balances approach method that revealed the accounting underreporting and inconsistencies.

2. The loss total includes $497 million in an unexplained "one-time accounting adjustment" that is not related to program performance. See footnote 10 on page 57 of the Federal Credit Supplement document. What was this adjustment?

See above answer.

3. Why does the Administration believe that the need for the program has fallen from the $4.0 billion it requested for FY 2005 to zero for FY 2006?

The Administration continues to strongly support the debenture and non-leveraged SBIC program. It is the Administration's position that, while the participating securities (PS) program has in the past provided start-up capital to small businesses, the cost and structure of the current program presently outweigh the benefits. The difference between the debentures and the PS program is the ability of its SBICs to perform equity investing in start-up companies.

The Administration acknowledges that the debentures program does not entirely fit start-up equity financing, though in many instances debenture financing with equity features can serve the same purposes.

4. If the Administration claims there is no need for the program, what analysis has the Administration undertaken to support that position?

The Administration acknowledges that the debentures program does not entirely fit start-up equity financing, though in many instances debenture financing with equity features can serve the same purposes.

5. The FY 2006 budget makes no reference to new leverage that will be required starting in FY'06 by existing PS funds if they are to be able to complete their investments in accordance with the business plans approved by the SBA in the licensing process. Has the SBA analyzed that problem and how it might be solved?

The SBA is performing an analysis of participating security funds' commitments that will be expiring at the end of FY 2005. Nonetheless, these SBICs are eligible to seek Debenture financing to complete their investments in accordance with their existing business plans.

6. Does the SBA currently have outstanding requests for analysis of aspects of proposed SBIC restructuring plans sent to it by the Senate Committee on Small Business and Entrepreneurship?

No.

7(a) Program

1. For the 7(a) program's secondary market, what is the FY 2006 subsidy rate attributed to the timely payment of principal and interest made to an investor who invests in a 7(a) security?

The FY 2006 subsidy rate for the Secondary Market Guarantee (SMG) loan program is 0.0 percent.

2. What is the up front fee that would be necessary to eliminate that subsidy in FY 2006?

The FY 2006 subsidy rate is 0.0 percent and therefore no fee is required. This results from implementing an administrative program change on October 1, 2005 which will increase the minimum ratio of loan maturity to pool maturity from the existing 70 percent to 80 percent. If an upfront fee of 0.05 percent (five basis points) of the pool amount were authorized, the required ratio of loan maturity to pool maturity could remain at 70 percent.

The Administration would like the flexibility to change and adjust this fee from year to year to maintain a zero subsidy rate for the SMG program. This will eliminate the need to make program changes from year to year.

3. The Master Reserve Fund (MRF) for the 7(a) Program's secondary market has existed for 20 years. Has any federal subsidy or transfer of federal dollars been made into the MRF during that time period?

No funds have been transferred into the MRF to date. However, the long term cost estimate required under the Federal Credit Reform Act of 1990 indicated that the MRF would require funds to pay security holders beginning in 2018. Therefore, an upward reestimate of $149.1 million is available in the financing account for that purpose. The shortfall represents about 0.8% of the total expected payments from the MRF.

4. Why does the SBA now say that an appropriation will be necessary in the next 13 years to maintain the MRF?

Projections indicate that the MRF will have insufficient funds in the year 2018 to make all of the payments to investors for pools originated through FY 2004.

5. What is the justification of the SBA's request for a new secondary market fee?

A very small ongoing fee would ensure the program remains self-funded without requiring annual adjustments to the program through administrative measures. This would allow for continuity in the program structure and rules.

6. Please explain the model used to develop the subsidy rate for the MRF.

The subsidy rate is developed using the Secondary Market Guarantee (SMG) program credit subsidy model. The SMG model forecasts all MRF cash flows on a monthly basis for the life of the cohort. Cash flows include cash inflows to the MRF from loans that underlie guaranteed pools, cash outflows from the MRF on guaranteed pools, and investment earnings on the MRF balance. The MRF balance is invested in a combination of short and long-term Treasury securities and the model estimates cash returns on these investments.

7. What are the assumptions used by the SBA for the model to develop the MRF subsidy rate?

Loan performance assumptions include purchase and prepayment econometric equations, delinquency rates, and partial prepayment (curtailment) rates. All loan performance assumptions are consistent with the assumptions used in the 7(a) loan guarantee program subsidy model. Other assumptions reflect forecast interest rates, forecast gross domestic product and unemployment rates, and anticipated characteristics of loans and pools.

8. In 5 year increments, beginning in 1995 and every year there after (e.g. 1995-2000, 1996-2001, etc) what was the spread between SBA's cost of money from Treasury and the price of an SBA security?

The following table lists historical spreads between the five year moving averages of the price of an SBA security, SBA's cost of money, and the MRF investment rate. SBA's cost of money, which we define as the rate at which SBA borrows from Treasury, is used to discount nominal forecasts of SMG program cash flows; however it is not used to generate those cash flows. The spread between the price of an SBA security (which we define in this analysis as the coupon rate of the security) and the rate at which the MRF is invested is used to forecast future MRF cash flows. Loans and pools typically amortize based on the prime rate, while the MRF balance is invested at a rate based on a weighted average of short and long term Treasuries.

Examination of five year moving average historical interest rates.

FY	Price of SBA security (A)	SBA cost of money (B)	MRF investment rate (C)	Spread between price of SBA security and SBA cost of money (A - B)	Spread between price of SBA security and MRF investment rate (A - C)
1995 - 1999	8.38%	4.92%	5.90%	3.46%	2.48%
1996 - 2000	8.46%	4.92%	5.83%	3.54%	2.63%
1997 - 2001	8.19%	4.92%	5.53%	3.27%	2.66%
1998 - 2002	7.43%	4.92%	5.10%	2.51%	2.33%
1999 - 2003	6.59%	4.92%	4.75%	1.67%	1.84%
2000 - 2004	5.85%	4.92%	4.39%	0.93%	1.46%

9. How were these spreads incorporated into the model?

Spreads are incorporated in the forecasts of loan and pool cash flow performance and MRF investment earnings. Loans and pools typically amortize and make payments based on the prime rate, while the MRF balance is invested at a rate based on a weighted average of short and long term Treasuries. As long as the prime rate is greater than the weighted average MRF investment rate, the spread results in a cost to the SMG program. This cost is partially offset by two items. The first is the nine days of float income that the MRF earns each month. The second is additional MRF earnings that occur due to late or missed borrower payments. When a borrower payment is missed, the MRF advances the payment to the investor. This reduces the principal balance owed to the investor, but does not reduce the borrower's principal balance. Because the borrower is now paying interest on a higher principal balance, the MRF will receive some interest income that will not be sent forward to investors. The amount not offset by these two items must be recovered either through program changes or a new fee.

10. What deviation is there between these historical spreads and the assumption used in the model?

As stated in the response to question 8, SBA's cost of money is used to discount nominal forecasts of SMG program cash flows and not used to generate those cash flows. The future spread between the coupon rate and the MRF investment rate is projected based on 2006 President's Budget Economic Assumptions. The maximum predicted spread between the coupon rate and the MRF investment rate in the FY 2006 President's Economic Assumptions is 2.104%.

11. Last year, the SBA made an administrative change in how it manages the MRF. Please explain that change.

The changes effective on October 1, 2004 are: (1) all partial prepayments on pools are passed through immediately to investors, (2) the first pool payment is principal and interest rather than interest-only, and (3) all "amortization excess" is passed through at loan termination.

12. Was that change given credit when the MRF subsidy rate was determined?

Yes, those changes were given credit during the computation of the SMG subsidy rate.

13. What is the long-term programmatic impact of this change?

It is anticipated that the change will result in faster repayment of money owed to investors which will ultimately be reflected in the price of the guaranteed pools.

14. What was the re-estimate for the FY 2004 subsidy rate contained in the SBA's Budget submission for FY 2006?

It was a downward reestimate for the 7(a) Small Business Loan Program for the FY 2004 cohort.

15. What was the reason for this re-estimate?

The downward reestimate resulted primarily from the timing of fee collections.

16. In light of that downward re-estimate for FY 2004, does the SBA still believe that the fees in place in FY 2005 create a zero subsidy for the program?

Yes, it is still estimated that the subsidy rate for 2005 is zero percent with current fees. The FY 2004 downward re-estimate is a timing issue which will correct itself when the remaining loans in the cohort are disbursed.

17. In light of that downward re-estimate, does the SBA believe that the fees in place in FY 2005 create a negative subsidy rate, i.e., a net profit to the Federal government for the 7(a) program?

No, SBA still estimates the subsidy rate for 2005 at 0.0 percent.

18. In light of that downward re-estimate, does the SBA still believe that the fees in the program need to be increased for FY 2006?

Yes, based on projected technical assumptions and economic indicators for 2006.

19. What further administrative changes could the SBA make to MRF management to reduce or eliminate any subsidy instead of imposing a new fee? What would the programmatic impact of these changes be?

The changes announced last September also include a change to the management of the MRF. The MRF will invest money related to post 2004 cohorts in Treasury securities with a maturity of up to 10 years. This is a change from the 5 year maximum maturity that previously existed for MRF securities. To increase the return on the MRF, the funds could be invested for an even longer term or in riskier but higher yielding securities. Any further changes to the program (including the proposal to raise the minimum remaining term to 80% from 70%) will make it more difficult for pool assemblers to put pools together. We continue to believe that they will be able to form pools, it will just be more difficult.

20. The Federal Credit Reform Act speaks of defining a subsidy rate for a program. Isn't the 7(a) secondary market part of the 7(a) program? What is the statutory basis for the SBA trying to impose and target a fee on something that is not legally a program?

Although the two programs are intricately related, they are two separate programs, and two separate guarantees. The 7(a) program provides a guarantee to lenders in the case of borrower default. This covers the credit risk associated with the small business loan. The Secondary Market Guarantee program provides a guarantee to the security holders that all payments will be received in a timely manner. The cost drivers of the guaranteed secondary market program for 7(a) loans are substantially different than those of the 7(a) guaranteed loan program. In addition, because not all 7(a) loans are sold in the secondary market, combining the two programs for budget purposes would be unfair to borrowers whose loans are not sold.

Community Express Loans

1. Please provide a summary report and breakdown of Community Express loans between $25,000 and $35,000, reflecting the number of loans made in that range to rural small businesses, women-owned small businesses, minority-owned small businesses, African American-owned small businesses, Hispanic-American-owned small businesses, Native American-owned small businesses, Asian-American-owned small businesses, etc.

In FY 2004, SBA approved over 4,100 CommunityExpress loans, almost 3,600 of which were under $25,000. The demographics of those CommunityExpress loans that fell between $25,000 and $35,000 are as follow:

FY2004 Community Express Loans
Loan Amount Range $25,000 - $35,000

	# of Loan Approvals	Gross $ Approved
Rural Small Businesses	6	$ 175,800
Women-Owned Businesses	45	$ 1,218,700
Minority-Owned Businesses	40	$ 1,076,700
African American	13	$ 334,200
Hispanic American	11	$ 300,500
Native American	0	$ -

504 Loan Program

1. The 504 Loan Program is a zero-subsidy program. For FY 2005, the authorization limit ("cap") for the 504 loan program is $5 billion, and for FY 2006 the Administration has requested an authorization cap of $5.5 billion. These cap numbers conflict with the authorization numbers adopted by Congress of $6 billion in FY 2005 and $7.5 billion in FY 2006. If program demand is on pace to exceed the cap for FY 2005, will the SBA request an increase in the cap in an appropriate appropriations bill?

Based on the usage to date, we believe that $5 billion will be adequate. Production for the first six months of FY2005 was $2.04 Billion. We note that production in the second half of the fiscal year could increase up to 50% and remain within the $5 billion cap.

2. At what point in FY 2005 would the SBA request such a cap?

We constantly monitor program demand and do not believe that such a request would be necessary.

3. If the SBA does not request such a cap, will the SBA support a Congressional effort to raise the cap?

Based on production to date, we do not believe an increase in the cap will be necessary.

4. When asset sales were stopped in December 2002, how many 504 loans were in default?

748 loans were in default at that time.

5. In the 504 program, 816 loans have defaulted since December 2002. Does the SBA believe that exactly 647 of these loans are in liquidation? If not, how many does the SBA believe are in liquidation?

The SBA data system shows that 505 loans are in liquidation at the present time. This number changes on a daily basis as loans go into and come out of liquidation status, or are charged off.

6. What happened to the remainder of the 816 loans?

This would require a review of each of the individual loans that the question references. We do not have this information readily available. Some will have been restructured and are once again making loan payments and others have been fully liquidated and charged off. Although a borrower may enter default, the loan is not immediately sent to liquidation. SBA and the CDC work with the borrower to try to find a way to restructure the loan or the business to avoid liquidation. If there is no reasonable way to salvage the business, the loan is transferred to liquidation.

7. For how many of the 816 loans has recovery been completed?

504 Loan Liquidations[1]

	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005
Number of defaulted loans	423	468	91
Dollar value of defaulted loans[2]	$ 157,641,714	$ 129,480,162	$ 22,370,249
Number of loans in liquidation at end of year	569	628	614
Dollar value of loans in liquidation at end of year	$231,763,515	$265,553,274	$256,448,182
Number of loans charged off during year	159	193	34
Dollar amount written off during year	$73,223,504	61,121,436	$14,125,162
Total dollars recovered during year[3]	$ 19,759,444	$ 58,060,368	$ 9,452,021
Recovery rate on defaulted loans	40.24 %[4]	40.24 %[5]	44.03 %[6]

1) Data through 12/31/2004.
2) Transaction codes 215 and 224.
3) Gross recoveries minus expenses.
4) Recovery rate used for the September 2004 reestimates.
5) Recovery rate used for the September 2004 reestimates.
6) Recoveries as a percentage of lifetime defaults as found in the Federal Credit Supplement.

8. What was the recovery rate on those loans for which recovery has been completed?

See the information noted above.

9. For the 504 program defaulted loans now in the liquidation process, how are these loans being handled, and by which SBA offices?

There are currently 614 504 cases in liquidation. The majority of these cases (534) are being processed by the district offices. The Fresno and Little Rock servicing centers are assisting the district offices in processing the remaining 80 cases. The process that is being used is consistent with the procedures in the SBA liquidation SOP. The offices are also coordinating with the CDC's for performance on specific liquidation actions.

10. How many 504 program defaulted loans are being processed by SBA offices?

While some of the CDCs may be liquidating some of their loans the majority are being handled by the SBA field offices.

11. How many 504 program defaulted loans are being handled by CDCs from the CDC liquidation pilot program, and what is the status of those recovery efforts?

We contacted the CDCs that participated in the CDC liquidation pilot. We found that the number of loans that are being liquidated from the pilot CDCs is less than 10.

12. How many 504 program defaulted loans are being handled by the PCLP CDCs, and what is the status of those recovery efforts?

37 PCLP CDC loans are in default of which 9 loans are currently in liquidation.

13. What is the status of the publication of a loan liquidation regulation, as requested by Congress in 2002?

These regulations are currently in the clearance process. We have redoubled our efforts to have the regulations completed as soon as possible.

14. When will the SBA publish a regulation to govern loan liquidations by lenders for both the 504 and 7(a) loan programs?

Regulations already exist for 7(a). Regulations for 504 were addressed in question #13.

15. What was the average size of a 7(a) loan and a 504 debenture in each of the last three fiscal years?

	Average 504 debenture size	Average 7(a) loan size
FY 2002	$429,183	$236,287
FY 2003	$447,820	$167,409
FY 2004	$463,532	$167,275

16. For each of the last three fiscal years, what was the average maturity of a 7(a) loan and a 504 debenture?

	7(a) average loan maturity in years weighted by approval amount	504 average loan maturity in years weighted by approval amount
Loans Approved in FY 2002	16.94	19.70
Loans Approved in FY 2003	16.44	19.75
Loans Approved in FY 2004	16.63	19.73
Loans Approved in FY 2005*	16.63	19.71

*Data through Dec 31, 2004

17. The 504 Program Assessment Rating Tool states that the agency "is developing an evaluation strategy to ensure that loans supplement rather than supplant available credit in the private market." What is that strategy?

The agency has established a contract relationship with the Urban Institute to evaluate various programs to determine if they are serving the intended purpose. The agency plans to develop such a study of the 504 program in FY2006, subject to the availability of funds.

18. What office in the agency will make this determination?

See answer to question #17.

19. When will the strategy begin to be implemented?

See answer to question #17.

20. The 504 Program Assessment Rating Tool says that the agency has "completed" work on changing servicing requirements so that intermediaries will be responsible for loan liquidations in the event of default. When was this work completed?

This will be implemented once the 504 liquidation regulations have been completed. (as addressed in question #13 above)

21. When will the intermediaries be made responsible for loan liquidations?

SBA is reviewing this issue at the present time.

22. For each fiscal year since the agency stopped its asset sale program, how many 504 first lien positions has the agency bought out?

SBA does not track the purchase of first lien positions in liquidation situations.

23. How many 504 loans were outstanding in each of those fiscal years?

In FY 2004, 35,466, 504 loans were outstanding. In FY 2003, 34,014, 504 loans were outstanding.

24. What is 504 loan volume, year to date?

As of April 1, 2005, the Agency has approved 3,896 loans for an amount of $2,054,567,000.

25. What impact is the larger debenture size in the 504 program having on program useage, i.e., how many debentures have been made that exceed the maximum size permitted in FY 2004, and what is the total dollar value of these debentures?

From December 8, 2004 to the present, 167 loans have been approved that exceeded the previous maximum for a total amount of $295, 729,000.

Surety Bond Program

1. Has the SBA sent new SOPs or implementing guidelines to the District Offices regarding the Surety Bond Program change that was included in the Omnibus Appropriations bill in December 2004 (Sec. 203 of Division K of the Omnibus Appropriations bill)?

The SBA has sent a Policy notice to all SBA employees, participating sureties, and agents implementing the changes that were included in the Omnibus Appropriations Bill in December 2004. The changes are currently being incorporated in the draft regulations under 13 CFR Part 115.

2. If not, when are those going to be distributed?

See above answer.

Small Business Development Centers

1. In 2004, the SBDC program counseled more people with fewer hours of counseling than in 2003. This was, in part, due to the SBDCs reducing their number of counselors. The SBDC program in my state of Maine is proposing to terminate two counselors next year as a result of federal financial resources not reflecting actual inflation and costs. This is an example of where less has indeed become too little, and with continued funding cuts, this program which was once prosperous may collapse. How does the SBA expect this program to continue to help create American jobs while the SBDCs are forced to cut resources and limit services?

While we have been told anecdotal incidences of counselor reduction, SBA has not formally received notice from the SBDCs that they have had to reduce their numbers of overall counselors or are being forced to limit services. In response to SBA's level funding of their operations, some SBDCs have been successful in increasing the match component they receive from their states and other sources.

SBA believes that to date SBDCs have not taken maximum advantage of new technologies available to help cut costs, streamline efficiencies and to extend outreach services. SBA included a provision in last year's program announcement for the SBDC program, requiring SBDCs to find creative ways to increase their use of web-based technologies to deliver a larger volume of services to their clients. A similar provision is proposed in this year's forthcoming program announcement.

Like all other SBDCs the Maine SBDC has received level funding for the past several years. However, the Maine SBDC did receive a supplemental award in the amount of $100,000 in FY 2003. This additional funding was provided for the Katahdin Entrepreneurship Education Project (KEEP). KEEP was launched in April 2002 as an effort to help existing and prospective small business owners through a collaborative program of entrepreneurial training for those residents and businesses adversely affected by the bankruptcy of Great Northern Paper (GNP) in an area which had over 30% unemployment.

The Maine SBDC is one of the most financially stable SBDCs in the country, attracting nearly three quarters of its funds from outside the federal government. As a result of its partnerships throughout the State, it continues to provide outstanding services to their clients.

2. In FY 2003, the SBDCs nationwide provided over 1.5 million hours of counseling. However, in FY 2004, the SBDCs nationwide provided only 1.4 million hours of counseling -- a decrease of nearly 100,000 hours of counseling. Though the SBDCs counseled more clients in FY 2004 than they counseled in FY 2003. SBDC counselors are seeing more clients as a result of increasing demand for SBDC services, but SBDC counselors are spending less quality time with each client. Therefore, as a result of SBDC resources not meeting market demand, it is inevitable that this divergence between demand and resources will reduce their economic impact. What kind of economic impact do you expect the SBDCs to have, if small firms requiring assistance are not receiving the time and counseling they deserve?

It is true that FY 2004 saw a decrease in counseling hours of approximately six percent. However, there was only a very modest increase in the number of clients counseled -- .2 percent (point two percent). The larger increase in the total client count for FY 2004 was primarily due to the increase in training attendees and training hours – approximately 8 percent for each category. This may suggest that baseline business knowledge is being introduced by training rather than individualized counseling, or as a precursor to individualized counseling sessions. We believe that this approach may reflect efficiencies of scale in teaching basic business vocabulary, concepts and knowledge prior to the overhead associated with one-on-one counseling for specific business problems.

Whether it be scarce budget dollars or increased availability of technological advances, the SBA recognizes the necessity of the SBDCs to increase their use of web-based capabilities. For example, more training online means expanded outreach and a diminished need for human capital outlays. Also, increased training online could generate program income at a relatively low cost. Likewise, development of online counseling mechanisms—particularly for the nascent entrepreneurial market—can free up counselors to devote more time to existing business clients, with the presumed result of greater economic impact. For these reasons, SBA continues to include increases in online counseling activities in the annual SBDC Program Announcement.

3. What is your analysis of the SBDC's ability to counsel more clients in a shorter period of time?

We presume this question relates to SBA's revision of client definitions this past year. Specifically, definitions for counseling and training and the reporting requirements for these activities were standardized across all Entrepreneurial Development programs (SBDC, WBC and SCORE) with one result being that the minimum requirement for counseling was set at ½ hour. For some of the programs, this represented an increase, for others, including SBDCs, a decrease.

We do not anticipate that this definitional change to the minimum time requirement for counseling will result in a significant change in the long-term counseling that the SBDCs do so well. Indeed, in last year's and this year's program announcements, SBA encouraged the SBDCs to continue to conduct in-depth, on-going counseling. While ½ hour is the minimum time requirement for a client/counselor interaction to be considered a counseling session, SBA has not and will not set a maximum, thus allowing SBDCs to spend as much time as necessary with clients. The standardization of definitions across all Entrepreneurial Development program areas was made in response to recommendations from both OMB and GAO, and was not intended in any way to dilute the quality of counseling and training clients receive at an SBDC.

4. Are clients receiving the same level and quality of service and what are the advantages and drawbacks?

As stated above, the minimum requirements for counseling were established in the interest of establishing uniform, standard definitions for the collection of data across all ED programs. This minimum requirement definition in no way imposes a maximum time frame for long-term, in-depth counseling which is the greatest strength of the SBDC Program. The Fiscal Year 2005 and 2006 Program Announcements contain language that specifically stipulates that counseling quality be maintained. ED's data integrity, the stringent and exhaustive accreditation process for SBDCs, and OSBDC's programmatic and financial reviews all collectively contribute to the quality of service of which the Program is justifiably proud.

5. The SBA's budget request calls for $106.9 million to cover the total cost of the SBDC Program, which includes $88 million to fund SBDC grants (see U.S. Small Business Administration Congressional Submission, Fiscal Year 2006, page 27, Table 12). This represents a request of nearly $19 million to cover the cost of administering $88 million in SBDC grants -- an increase in administrative costs of $3.3 million (or 22%) compared to FY 2004. Why is the SBA's cost of administering the SBDC program rising so dramatically, while the SBDC proposes to reduce funding for SBDC grants by $61,050 between FY 2004 and FY 2006?

Table 12 shows the total cost of SBA programs, including both administrative costs and total grant costs. Actual administrative costs were $15.5 million in FY 2004 and are estimated at $18.9 million in FY 2006. Administrative costs for SBDC include: compensation and benefits for staff who contribute to this program at regional and district offices (including SBDC project officers); compensation and benefits for HQ staff in Entrepreneurial development who contribute to the program; direct operating budget for the HQ staff; indirect costs such as proportional costs of agency wide costs including telecommunications, rent, unemployment compensation, etc.; overhead costs (a portion of Agency overhead allocated to all programs on a proportional basis). Cost of living adjustments and inflation alone total approximately $1.3 million of this increase. Other significant costs are an allocation of overhead from the Office of Chief Information Officer (which reflects an increase in IT investments requested for FY 2006); indirect costs, particularly security, from both agency wide costs and the Office of Management and Administration; and other indirect and overhead costs. Because SBDC is a relatively large program for SBA (by far its largest grant program), the program bears a significant share of agency indirect and overhead costs.

6. The SBA's Budget Request calls for $1 million for evaluations of the economic impact of SBA programs. In addition, the budget request states that the SBA will continue to improve the measurement of the Agency's outputs and outcomes which are used in the OMB Program Assessment and Rating Tool. In this regard, the Committee understands that the SBA last year conducted a nationwide survey of the economic impact of its entrepreneurial development programs, and that a report on the results of the survey has been written. In order to evaluate the SBA's funding request for independent evaluations of its programs in FY 2006, and to evaluate the effectiveness of the SBA's entrepreneurial development programs, please provide the report and the underlying data on last year's survey.

In FY 2004, SBA's Office of Entrepreneurial Development began the first year of a three year project which included a survey of a sample of the clients that received business counseling during the 4th quarter of FY 2003 from the Agency's resource partners, including SBDCs, SCORE, and WBCs. The study is designed as a three-year longitudinal impact study to measure all of the programs in a consistent and simultaneous manner. The FY 2004 data collection is regarded as a baseline survey and needs further research and refinement. Information collected in the subsequent years of the study will be used to facilitate trend analysis, particularly on financial growth of small businesses. The study of the FY 2003 clients will conclude in 2006, at which time the formal findings will be presented to the Committee.

SBA designed the survey in consultation with an independent panel of nationally recognized entrepreneurship researchers and received OMB approval of the methodology. The Agency then contracted with Concentrance Consulting Group, a women-owned minority small business, to conduct the study and report on its findings. The survey was undertaken in response to OMB's findings under the Program Assessment Rating Tool (PART) evaluation of the programs. OMB had noted that SBA lacked unbiased external impact evaluation data on the ED programs, and had strongly suggested that SBA initiate an independent external study of a period of time that would offer valid and reliable results, measuring both the customers' value-added view of the services received and the economic impact on the firms already in business that were counseled.

7. Additionally, the Committee understands that the SBDC network already conducts significant and verifiable independent research on the economic impact SBDCs provide through assistance to America's small businesses. In order to evaluate the SBA's funding request for independent evaluations of its programs in FY06, and to evaluate the effectiveness of the SBA's entrepreneurial development programs, specifically the SBDC, please provide the rationale as to why funding an SBA study would not be duplicative to SBDC network processes already in place.

The Association of Small Business Development Centers (ASBDC) contracts with Dr. James Chrisman, an independent professional, to conduct biennial economic impact surveys among other studies of the national SBDC network. The Chrisman study, is only conducted biennially, and surveys only a limited segment of the SBDC client base — those clients counseled for more than 5 hours. OMB, in discussions with SBA, stipulated the requirement as comprised in the PART evaluation, of the need for an annual survey which looks at all SBDC, along with WBC and SCORE, clients and the total effectiveness of the program and, if possible, compares the

SBA client outcomes to those of the population in general. SBA's Entrepreneurial Development annual impact survey makes more of an attempt to meet these requirements and is an independent survey contracted by SBA, while the Chrisman study is financed by the ASBDC which could be considered to have a vested interest in the study's outcome. These two studies are not duplicative.

8. Included in the budget request is funding for state and regional entrepreneurial development grant programs. However, the Committee understands that state and regional SBDC grantees may not have received their final FY 2005 funding amount notifications. Please provide the amount of Federal funding that each of the SBDC grantees in all the states and territories will receive under the FY 2005 appropriation and the statutory funding formula.

See the below spreadsheet for details on FY 2005 appropriation allocations to each SBDC. The funding formula is prescribed in the Small Business Act:

The annual amount made available to the program, less reductions for authorized expenses, is divided on a pro rata basis. The minimum funding level, when the amount authorized is less than $90 million but greater than $81.5 million as in 2005, is $500,000. Amounts needed to bring all states to the minimum level are deducted on a pro rata basis from those in excess of $500,000. Any amounts provided to states but not used are redistributed to states funded that are at less than the FY 2000 level until that level is met or funds are exhausted. Any remaining funds are provided as supplemental distributions at discretion of Administration in consultation with the ASBDC.

State	FY 2005 Allocation	Unused allocation	FY 2000 Funding	Total 2005 after redistribution of Unused alloc.
WV	$500,875		$628,228	$543,633
CT	$943,273		$1,045,447	$977,577
IA	$810,533		$903,302	$841,680
KS	$744,638		$819,243	$769,686
NE	$500,000		$567,629	$522,706
LA	$1,237,816		$1,308,515	$1,261,553
MS	$787,913		$847,168	$807,808
OK	$955,762		$1,006,907	$972,934
NM	$503,839		$550,034	$519,349
AR	$740,478		$784,618	$755,298
KY	$1,119,489		$1,157,990	$1,132,415
PA	$3,401,605		$3,455,213	$3,419,603
AL	$1,231,757		$1,259,646	$1,241,121
WI	$1,485,630		$1,495,340	$1,488,890
MO	$1,549,761		$1,559,854	$1,553,150
OH	$3,144,591		$3,165,336	$3,151,556
AK	$500,000		$500,000	$500,000

DC	$500,000		$500,000	$500,000
DE	$500,000		$500,000	$500,000
GM	$500,000		$500,000	$500,000
HI	$500,000		$500,000	$500,000
ID	$500,000		$500,000	$500,000
ME	$500,000		$500,000	$500,000
MT	$500,000		$500,000	$500,000
ND	$500,000		$500,000	$500,000
NH	$500,000		$500,000	$500,000
RI	$500,000		$500,000	$500,000
SD	$500,000		$500,000	$500,000
VI	$500,000		$500,000	$500,000
VT	$500,000		$500,000	$500,000
WY	$500,000		$500,000	$500,000
AS	$500,000	-$301,000	$129,000	$199,000
MD	$1,467,020		$1,465,181	$1,467,020
UT	$618,543		$607,567	$618,543
SC	$1,111,247		$1,104,097	$1,111,247
IN	$1,684,172		$1,678,822	$1,684,172
PR	$1,054,908		$1,044,046	$1,054,908
MN	$1,362,597		$1,350,121	$1,362,597
MA	$1,758,572		$1,745,223	$1,758,572
OR	$947,659		$922,015	$947,659
MI	$2,752,749		$2,730,248	$2,752,749
NV	$553,477		$500,000	$553,477
TN	$1,575,817		$1,492,549	$1,575,817
NJ	$2,330,606		$2,218,395	$2,330,606
NY	$5,256,096		$5,164,299	$5,256,096
IL	$3,439,894		$3,327,308	$3,439,894
CO	$1,191,363		$1,048,797	$1,191,363
WA	$1,632,553		$1,490,032	$1,632,553
VA	$1,960,606		$1,796,515	$1,960,606
NC	$2,229,498		$1,984,329	$2,229,498
AZ	$1,421,082		$1,152,125	$1,421,082
GA	$2,267,483		$1,942,441	$2,267,483
FL	$4,426,797		$3,756,258	$4,426,797
TX	$5,775,534		$4,964,226	$5,775,534
CA	$9,381,764		$8,241,303	$9,381,764
TOTALS	$83,857,994	-$301,000	$79,909,367	$83,857,994

Texas SBDCs	**FY 2005 Allocation**
Dallas	$1,946,355
Houston	$1,599,823

Cal. SBDCs	**FY 2005 Allocation**
SF	$2,109,020
Sacramento	$1,046,067

Lubbock	$531,349
San Antonio	$1,698,007
Total	$5,775,534

Fresno	$1,095,790
LA	$2,721,650
Santa Ana	$1,623,983
SD	$785,254
Total	$9,381,764

<u>Women's Business Centers</u>

1. In FY2005, the SBA did not allocate any administrative funds to the Office of Women's Business Ownership for the oversight and operation of the $12 million women's business center program. Can you assure this committee that sufficient funds will be allocated for the administration of this important program?

SBA has allocated $124,000 for operating expenses for the Office of Women's Business Ownership for FY 2005. Of this, $110,000 was allocated to replace the funds previously provided as a percentage of the line item funding. Total SBA resources estimated to support this program in FY 2005 are $22.9 million, of which only $12.3 million is this year's line item funding. The balance of these funds supports headquarters and field staff who work on this important project, indirect costs (such as telecommunications and rent), and Agency overhead.

2. Where will the funds come from?

The funds will come from the Agency's Salaries and Expenses appropriation.

3. How much will be distributed?

We have allocated $124,000 directly to the Office of Women's Business Ownership in FY 2005. Compensation and benefits for staff who work on this program are managed by the Office of the Chief Financial Officer from a centrally funded account. The same is true for indirect costs.

4. There are currently 49 centers in sustainability status. If the women's business center sustainability program is terminated next year, how does the SBA plan to use the funds?

SBA plans to use its FY 2006 program funding to continue funding to the 32 eligible existing WBCs and to fund 48 new WBCs, for a total of 80 WBCs.

5. What will happen to the sustainability centers that can no longer compete for grant funds?

The WBC Program was originally intended to provide money to support training centers that would be self-sustaining at the end of the grant cycle. The required recipient match for the federal grant funds increases during a WBC's period of participation in the program, thus helping to decrease the entity's reliance on Federal funds. As part of its annual post-award training with the WBCs, SBA provides training on sustainability, including fundraising. It is intended that by the end of a WBC's 5-year project term, a viable center will have established or strengthened its existing base of economic support within the community and the State sufficiently to be able to continue functioning without SBA support. The cooperative agreements between SBA and the WBCs are structured on this basis.

6. The SBA states that they only support opening new women's business centers and providing competitive grants for a period of 5 years. Tax payers have invested up to nine years of their money to help sustain these valuable centers which in 2003, helped create or retain 6,500 jobs and generate $235 billion in revenue. Why does the SBA believe opening new centers is better policy than maintaining centers that have proven their worth in their communities and States?

SBA believes that opening new centers in different locations will allow more women around the country to take advantage of WBC expertise. In this regard, we note that the original intent of the program was to provide Federal assistance on a relatively short term basis to enhance the capabilities of the centers to provide assistance specifically targeted to women, especially those who are socially and economically disadvantaged. When they join the program, most WBCs are not start-up operations, but are initiatives of established community organizations, so there is a built-in level of support from the beginning.

Like any business, the strongest and best-run WBCs will survive. Beginning at the time of initial funding, and continuing through the entities entire tenures in the program, SBA encourages WBCs to develop exit strategies that will enable them to continue to operate even after they are no longer be eligible for funding from SBA.

<u>Native American Outreach</u>

1. Please provide the Committee with a detailed plan on how the agency will use the $1 million appropriated for FY05?

SBA intends to fund Native American projects that meet the overall Congressional mandate that we assist small businesses in tribal areas on the basis of needs, and conduct strong outreach to ensure that underserved tribes have the opportunity to participate in all the programs and resources of the Small Business Administration.

To ensure that these programs are appropriate to meet the needs of the tribal areas, SBA has established a strong working relationship with, and has sought input regarding appropriate funding needs and priorities, from the National Congress of American Indians (NCAI). [Founded in 1944, NCAI is the oldest, largest American Indian and Alaskan Native organization in the USA, and is regarded as the organization most representative of the views of those populations.] SBA is also utilizing an economic development study, commissioned with funding from the FY03 appropriations, to further identify needs, gaps and priorities.

SBA intends to publish a Request for Proposal (RFP) soliciting applications for funding for Economic Development Projects in the priority areas of interest identified by the Agency. Proposals submitted in response to the RFP will be evaluated under existing Federal procurement guidelines.

2. Who is currently managing the Native American office? How many staff are in this office?

As you are aware, the former Associate Administrator for Native American Affairs, left the Agency in January 2005. Until a new Associate Administrator is appointed, the day-to-day management and oversight of the Native American Affairs function has been assigned to Ellen Thrasher, Associate Administrator, Office of Business and Community Initiatives within the SBA's Office of Entrepreneurial Development (ED).

There are two full-time positions allocated to the Office of Native American Affairs, and additional ED staff support the function on an as-needed basis.

Veterans Business Development

1. Since September 2001, approximately 350,000 National Guard and Reserve personnel have been mobilized in support of current operations. A recent Department of Defense survey estimates that 29 percent of Guard members and Reservists either own or are employed by a small business. As a result of activations, many small businesses have been forced to go without their owners and key personnel for months, and sometimes years, on end. The effects have been devastating to these patriotic small businesses that are owned by, or employ, Guard members and Reservists.

The SBA Office of Veteran Business Development (OVBD) has made a concerted effort to reach out to small businesses affected by deployments, but given the sheer number of those deployed, their resources have been stretched thin. In addition, the OVBD has been required to broaden their delivery of services, as directed by Executive Order 13360, to provide procurement training programs for service disabled veterans. For the fourth year in a row, the SBA's Budget Proposal provides only $750,000 for the Veterans Business Development Program. In light of the increased numbers of Guard and Reserve deployments in recent years, wouldn't it be appropriate to increase funding for the Veteran Business Development Program, so it can better serve the patriotic small businesses that are owned by, or employ our nation's veterans?

SBA's budget allows us to continue to effectively provide business development assistance to veterans. OVBD has focused most of its Reserve and National Guard outreach efforts specifically at the mobilized member him or her self. In doing this, we have provided SBA Fact Sheets and other printed and e-based materials applicable to a self employed member of the Reserve or Guard, and SBA materials applicable to any small business that a member may work in. Most of the professionally produced materials OVBD has produced (Getting Veterans Back To Business) was designed specifically for self employed, activated members.

The District Office Outreach Initiative has been targeted to Reserve and Guard Units (and others), in an effort to reach all potential small employers.

We have also participated in National Employer Committee for Support of the Guard and Reserve (ESGR) conferences and trainings and coordinated SBA field offices involvement in ESGR and other training events targeted to all small businesses that employ members.

The assistance we have provided in the marketing of the Military Reservists Economic Injury Disaster Loan program (MREIDL) has been directed to both self employed members and to the broader group of small employers of the Reserve and Guard.

The four Veterans Business Outreach Centers OVBD funds have been directed to assist all reserve and guard members, but with specific focus on self employed small business owners who are Reserve and Guard Members. Our recent Veterans Business Outreach Center program announcement takes this same focus.

Perhaps the most difficult problem is assisting those members of Reserve Components who are self employed professionals. Many of them are in their second or third activation/deployment, and additional activations are looming in the future. The barriers to ongoing successful business ownership for some will likely be too great to overcome. No amount of increased funding short of that required for special counseling, lending and grants/debt waiver will overcome issues some of these men and women face with their business.

While OVBD/SBA realizes that it is important to reach each and every at-risk small business owner, we believe that our outreach, along with the increased availability of our Reserve and Guard tools that are being distributed to approximately 20,000 locations ensure that affected small business owners know of and can utilize existing SBA services and assistance.

<u>SBA Government Contracting</u>

1. Between FY02 and FY03, federal contracts grew from just under $227 billion to over $274 billion. However, under the SBA's proposed budget, approximately 100 PCR positions at top procurement centers remain open. How can the SBA ensure that an increase of merely six PCRs, along with a $100,000 e-PCR system, will adequately fulfill the requirements of the Small Business Act concerning PCRs and to implement Presidential and Congressional anti-bundling initiatives in the growing federal contracts market?

SBA is currently working on a plan to enhance PCR effectiveness and to ensure comprehensive representation across large, medium, and smaller buying activities. Recently we published vacancy announcements to recruit six new Procurement Center Representatives (PCR) to augment our existing cadre. This is phase I of our plan to enhance services to the small business community and Federal buying activities to which we assign on-site PCR coverage.

Under phase II of this plan, we will re-align PCRs to ensure coverage at those Federal buying activities that spend a significant portion of the total procurement dollars and where we do not currently have a presence, on either a resident or liaison basis. PCRs will be assigned "resident" and "liaison" responsibilities for the top buying activities based upon total procurement dollars obligated.

2. Please estimate the number of major procurement centers and strategic sourcing organizations such as commodity councils, that will remain without coverage by in-house PCRs under the SBA's budget proposal for FY 2006?

Approximately 25 major procurement buying activities have in-house PCR coverage. SBA continues to monitor the remaining activities using "liaison" and "on-call" PCRs to ensure adequate coverage is provided.

3. On an annual scale, what is the dollar amount that has been awarded by these entities and what are the expectations for coming years?

The dollar amount that has been awarded by these entities on an annual basis totals approximately $40 billion.

4. The SBA has been conducting a review of the PCR assignments. Please provide the Committee with the SBA's review and proposals for the overhaul of PCR assignments.

We continue to review PCR assignments. As PCRs retire or leave SBA, we will give priority consideration to providing resident, i.e. on-site, coverage to the top buying activities in descending order. We are happy to work with the Committee on our plans for improving PCR coverage. As soon as we finalize our plan for implementation we will be happy to share a copy with the Committee.

5. Administrator Barreto mentioned in his testimony a recent study regarding the 2002 prime contracts goaling numbers. The study showed that some contracts were miscoded as given to small businesses, when in fact they were not. Serious concerns have been raised that a new regulation on coding small business contracts could drastically reduce the market value available to those small business owners who are selling their business. What are the results of that study and the job creation value?

The study shows that agencies are taking credit towards their small business goals for contracts held by large businesses. While there are some problems with large businesses receiving contracts intended for small businesses, SBA's ongoing review of the underlying data shows that the majority of the firms identified by the studies hold contracts awarded to legitimate small businesses at the time of award, but that subsequently grew to large businesses, or were acquired by large businesses over the period of contract performance.

Long before the study was published, the SBA and other agencies took many steps to address the problem of large businesses competing for and receiving contracts intended for small businesses, including publishing a final rule that requires businesses that received contracts as small businesses and then need to novate their contracts, usually due to being purchased by another firm, to recertify their size.

6. Mr. John Massaua discussed in his testimony the activities of the Maine Institute of Technology (MIT), which was established by the State of Maine to promote, stimulate, and support research and development. MIT also acts as an investor in technology firms. In addition to creating jobs for people in Maine, the MIT's record proves the unique success of Federal-state partnerships in developing small hi-tech firms. During FY 2004, the MIT received $157,000 in state funds to match the $95,000 FAST award, and $25,000 in state funds to match the $49,000 ROP award. Based on MIT figures, it is estimated that Maine firms will receive over $41 in SBIR awards for every dollar in FY 2004 FAST and ROP funding. It seems rather incredible that the SBA Maine district office, handling the full range of small business programs, would be able to achieve these kinds of results in the area of technology development. Given that FAST and ROP recipients are able to leverage state funds and may even be eligible to participate in the STTR program through joint projects with private firms, why does the SBA believe that providing FAST and ROP services in-house will be as effective?

SBA's budget request will not hinder the SBIR program. Recognizing that the Rural Outreach Program (ROP) and Federal and State Technology (FAST) programs have been only intermittently funded in the past, and believing that SBA can better serve small businesses by ensuring that there is a continuous source of information on these programs, SBA has decided to instead work through our core infrastructure of Women's Business Centers, Veterans Outreach, 7(j) Technical Assistance, SCORE chapters, the Small Business Development Centers and our network of District Offices to see that information on the SBIR program remains available.

6. A senior SBA official testified before the House Small Business Committee in May 2003 that "[p]articipating agencies in the SBIR and STTR Programs have reported a significant increase in the number of proposals received for their current solicitations, which we believe is attributable to outreach and training provided by FAST and Rural Outreach grant recipients." Also, it appears that the National Academy of Sciences is in the process of surveying state FAST and ROP managers in order to evaluate these programs. It seems that eliminating FAST and ROP grant programs now would be unwise, given the SBA's past endorsement and the Academy's review. What basis, empirical or otherwise, does the SBA have for opposing the funding of the SBIR/STTR FAST and ROP grant programs that it recently supported?

While the SBA did not request specific funding for the SBIR/STTR FAST and ROP grant programs, we fully support the objectives of the programs. We will achieve those objectives and ensure a continuous source of coverage using our core infrastructure of Small Business Development Centers, SCORE chapters, Women's Business Centers, Veterans Outreach, 7(j) Technical Assistance, and our network of District Offices to see that information on the SBIR program remains available.

7. Major business publications such as Fortune have been reporting that China and Europe have embarked on aggressive efforts to build strong public-private partnerships in order to develop their technology firms. Reports like these suggest that it makes sense to encourage, rather discourage, such partnerships in this country. In light of current international trends in the field of public-private technology partnerships, how can the SBA be sure that its proposal to zero out the SBIR/STTR FAST and ROP grant programs would not damage America's long-term technological competitiveness?

As stated in our response to Question 6, SBA's budget request will not hinder the SBIR program. Recognizing that the Rural Outreach Program (ROP) and Federal and State Technology (FAST) programs have been only intermittently funded in the past, and believing that SBA can better serve small businesses by insuring that there is a continuous source of information on these programs, SBA has decided to instead work through our core infrastructure of Small Business Development Centers, SCORE chapters, Women's Business Centers, Veterans Outreach, 7(j) Technical Assistance, and our network of District Offices to see that information on the SBIR program remains available.

8. Advertising materials for the SBA's Business Matchmaking Program suggest that the SBA has not included the New England region in its plans for 2005. The SBA plans to open its parallel online pilot program to small firms in the Western states and Florida, but the New England states are again excluded. Please provide the SBA's plans for expanding Business Matchmaking to Maine and other New England states in FY06.

SBA will soon begin the process of identifying Business Matchmaking (BMM) events during FY 06. We will take into account the number of small businesses located in a number of potential sites, as well as other economic indicators, and New England locations will be reviewed closely. SBA has also developed a BMM Online tutorial that is available at www.businessmatchmaking.com. Small businesses located in all areas can access information about the Federal procurement process and available SBA assistance.

9. Total budgetary expenditures for the 8(a) program are continuing to increase from $34.9 million in FY04 to $37.6 million in the fiscal year 2006 request. According to the SBA, much of this funding will be devoted to increasing the number of 8(a) firms. However, the June 2, 2004 Report of the SBA Inspector General (IG) noted the SBA's failure to develop program-wide policy and guidance on how the SBA would deliver business development services. The 8(a) program has also been criticized by the Government Accountability Office (GAO). In light of the IG and GAO reports, why does the SBA plan to expand this program without reforming it?

There are a variety of program enhancements underway to strengthen and improve the 8(a) Program. For example, during FY 2004, we automated the 8(a) application. In FY 2005 we are automating the Annual Review. By the end of FY 2006, we plan to have a comprehensive modern management Information System that replaces the inefficient SACS/MEDCOR system. The new system will be used by Headquarters and field staff to better manage the quality and timeliness of services provided to 8(a) small business concerns.

There are other planned enhancements ranging from restructuring the 7(j) program to streamlining internal, outdated processes and procedures. SBA recognizes the importance of improving service delivery to the 8(a) community and we are taking the necessary steps to do this and respond to the 8(a) community needs.

10. According to the SBA's Fiscal Year 2003 Report to Congress, the benefits of Section 7(j) "have been limited to providing high-level executive development, and training, through the Executive Education Program, to current 8(a) program participants." This raises a serious concern that the SBA's $2 million request for the 7(j) program (a 30 percent increase in funding) will be spent duplicating services that 8(a) firms should already receive through the 8(a) program. What are the SBA's plans for expanding the pool of procurement technical assistance recipients in the 7(j) program beyond 8(a) firms?

During fiscal year 2004, SBA developed a new strategy to address the needs of U.S. firms in high unemployment, low income areas of the country. These firms include 8(a), HUBZone and SDB program participants, as well as others. Using a grass roots approach of taking the training to where the need is most urgent, SBA has been able to:

Reduce the cost of 7(j) training by about 80 percent from $3,500 to around $625 per individual.
Increase the number of 7(j) training locations by more than 500 percent in fiscal year 2005, (fewer than 10 central locations in FY 2004 to over 50 grass roots sites in fiscal year 2005).
Double the number of small business owners benefiting from face-to-face 7(j) training (from approximately 500 in fiscal year 2004 to over 1,000 to date in fiscal year 2005).

The $2 million requested for the 7(j) program in fiscal year 2006 merely restores the budget to fiscal year 2004 funding levels and does not duplicate other training services. The new 7(j) training curriculum addresses two IG recommendations: 1) the opportunity to provide more equitable distribution of contracts among 8(a) firms; and 2) refocus the 8(a) program to emphasize business development.

11. Since 2002, President Bush has been calling for a dramatic increase in federal contracting opportunities for small businesses. According to the President, small business contracts promote innovation, save taxpayers' dollars, and facilitate what he called "a grand national goal" of "more ownership in communities all across America." One of the key instruments in this effort is the HUBZone program enacted and recently strengthened by Congress. Unfortunately, the Federal government has never fulfilled its HUBZone contract goals. Yet, the SBA proposes to eliminate the HUBZone line-item, while also cutting its funding to approximately $2 million less than its authorized level. In light of the President's commitment to increasing ownership, why is the SBA refusing to fund this program to the extent authorized by Congress?

The SBA fully allocates costs in its formulation of its budget requests. Consistent with its treatment of other programs, SBA is not requesting line-item funding of the HUBZone Program, but is including program requirements in the agency operating budget. For fiscal year 2006, the Agency is requesting approximately $7.3 million for conduct of the HUBZone Program. This amount is consistent with historical fully allocated costs of the program, and will support its execution in fiscal year 2006 at a level that is consistent with the President's commitment to increasing Federal contracting opportunities for small businesses.

12. In its budget proposal, the SBA stated that it "intentionally" dropped its procurement technical assistance goals to only 10,500 businesses for fiscal years 2005 and 2006. Because of this, the SBA will offer assistance to 6,400 fewer companies than it did in fiscal year 2004. The SBA explained that this drop is necessary to partially realign its Procurement Center Representatives (PCRs) from counseling duties to reviewing and influencing procurements which would discourage contract bundling. The SBA also stated that it expects partner organizations to provide procurement counseling services instead. Please explain the plans between the SBA and its resource partners to serve these 6,400 small businesses.

Since procurement-related counseling and training is already available from the Procurement Technical Assistance Centers, individual agency Offices of Small and Disadvantaged Business Utilization (OSDBU), and SBA District Office and resource partners, the Procurement Center Representatives will partly shift their focus from counseling and training to reviewing and influencing procurements. SBA Area Office personnel are also conducting education activities across the country at local procuring activities to review findings from recent surveillance reviews. These education forums include a discussion on the OSDBU's role in training and outreach to small business.

Additionally, each SBA District Office will hold marketing and outreach sessions in FYs 2005 and 2006. Specific topics for these sessions will be developed in cooperation with SBA program offices, including the Office of Government Contracting and Business Development. The Office of Government Contracting and Business Development staff is also collaborating, through the District Offices, with the Agency's resource partners on strategies to ensure the competitive viability of small businesses in the Federal marketplace.

13. One of the SBA's most controversial initiatives has been its effort to restructure small business size standards. Please provide the SBA's plans and financial data for your size standard reform efforts for the rest of FY05 and FY06.

SBA is seeking input from the public in formulating a new proposal to simplify size standards and to make size standards easier to understand and use. On December 3, 2004, SBA published an Advance Notice of Proposed Rulemaking (ANPRM) requesting the public to provide its view on a range of general issues pertaining to size standards. SBA is in the process of evaluating more than 6,000 comments it has received on the ANPRM.

In addition, SBA will be conducting 11 public hearings on the size standards across the country to provide the public with an opportunity to meet with SBA and present additional information on this initiative.

SBA will consider a new proposal which takes into consideration the public comments and testimony at the size standards hearings.

SBA has allocated specific funds to conduct the size standards hearings and defray other costs consisting of salaries and miscellaneous expenses, to evaluate comments and prepare recommendations for future proposals.

14. The size standard regulations proposed by the SBA last year placed bureaucratic convenience ahead of the needs of small businesses. These regulations imposed artificial caps on the creation of jobs through converting revenue-based standards to employee-based standards. The regulations would have immediately deprived more than 34,000 small businesses of their small business status, thus causing a serious economic dislocation. What practical measures does the SBA intend to take in order to ensure that its new size standard reform effort does not depress job creation, or result in another one-size-fits-all approach? How will it take into account the needs of Maine and other states where small businesses provide the foundation of local economies?

SBA is reconsidering its proposed approach to simplify and restructure size standards. The information the public provides in its comments to the size standards ANPRM and testimony at the size standards hearings will be carefully reviewed before making any decisions on a new proposal. SBA will carefully review the impact of any future proposed rule.

15. Please provide the budget breakdown, staffing information, and performance indicators (such as the number of SBIR Phase III appeals filed) for the SBA's Office of Technology.

In FY 2004, the total budget for the Office of Technology was $2,987,000. Grants awarded by the office totaled $2,226,000, while the administrative costs totaled $761,000. During FY 2004, three Phase III appeals were formally filed.

The SBIR program is goaled under Long Term Objective 1.6 in SBA's FY 2006 Budget and Performance Plan. The goals are the Commercialization Rate (percentage) for the SBIR Program: FY 04 (Actual) - 42%; FY 05 - 44%; FY 06 - 45%. The SBIR program's funding in FY 06 is provided for in the salaries and expense account.

16. In 2000, Congress directed the SBA to conduct a study on whether women experienced disparate treatment in certain industries that rely upon public procurement. In the past, the SBA advised Congress that it delayed the release of the study in order to address some reservations about the validity of the data and the remedial women's set-aside program. Please provide an update on the SBA's efforts and plans regarding this study and the remedial set-aside program.

As noted previously, your question regarding the women's procurement program involves matters currently in litigation and because of this we are unable to provide a response to this request at this time.

17. The SBA Inspector General's (IGs) Audit Report No. 4-16 concerning the SBA's own procurement activities indicated that the SBA failed to observe its own regulations concerning small business awards, failed to conduct proper acquisition planning, and failed to adequately monitor performance of its contractors. These findings raise serious questions about the SBA's commitment to compliance with acquisition laws and regulations, including the requirements for contracting with small businesses. What steps has the SBA taken, to date, to improve its acquisition processes in accordance with the IG's recommendations?

While SBA does not fully agree with the Inspector General's interpretations of rules and policies related to some contracting actions, the Agency does take its responsibility seriously for full compliance with acquisition laws and regulations, internal policies, and the requirements for contracting with small business. Therefore, following the issuance of the noted report, SBA contracting personnel have reviewed existing internal policies and procedures to ensure that they are consistent with the applicable laws and regulations. To ensure full compliance and the availability of up-to-date guidance for contracting staff, SBA is currently in the process of revising/updating its internal Contracts operating procedures manual. Next, SBA has developed and implemented a formal Annual acquisition planning process. Also, SBA has begun the process of identifying contracting staff skill gaps and appropriate training will continue to be provided. Finally, SBA has taken an in-depth look at its contract flow process. As a result, SBA will identify problem areas and make the necessary changes to increase efficiency and enhance customer service. Combined, these efforts will ensure full compliance with all mandated contracting procedures and practices under the law.

18. The same Audit Report No. 4-16 also indicated that the SBA was overcharged by its contractors to the tune of millions of dollars. It appears that, at least in part, the SBA's lax compliance processes enabled these overcharges. What steps has the SBA taken, to date, to recover the overcharges?

The SBA has advised the appropriate contractor(s) of the concerns documented in this report and requested their responses to the assertions regarding the pricing variations. We are in the process of evaluating the responses and conducting a review of the related contract records. When we have completed our analysis, we will seek any appropriate remedies and, if necessary, will refer the matter to GSA for final resolution.

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

MAY 4 2005

Mr. Weston Coulam
Staff Director
Committee on Small Business and Entrepreneurship
United States Senate
Washington, DC 20510

Dear Mr. Coulam:

Thank you for your letter of March 28, 2005, requesting further information from the February 27, 2005, SBA FY 06 Budget Request hearing. Attached please find a complete set of answers to your questions. Please accept our apologies for the delay in returning these to you.

Should you have any further questions please contact our Office of Congressional and Legislative Affairs at (202) 205-6700.

Sincerely,

C. Edward "Tee" Rowe
Acting Associate Administrator
for Congressional and Legislative Affairs

Attachments

SBA Response to Ranking Member Kerry's Questions
for SBA Administrator Hector Barreto
SBA FY 2006 Budget Hearing
February 17, 2005

Proposal to Eliminate the SBA Microloan Program

For the second year in a row the President is seeking to eliminate the SBA's microloan program. The Administration contends that the borrowers served through the SBA microloan program can be served through the 7(a) Community Express Program.

1a. Describe to the Committee the extent and kind of technical assistance received under the microloan program and the technical assistance provided under Community Express.

Under both SBA's Microloan and CommunityExpress programs, participants may receive various forms of pre- and post-closing technical and management assistance, including individual management counseling, classroom style training, peer group training, sectoral-based networking, computer-based training, etc. The assistance is tailored to the individual needs of the participant and may include such topics as business planning, financial management, marketing, bookkeeping, procurement assistance, computer skill training, etc.

1b. For FY2001, 2002, 2003, and 2004, provide the Committee with the percentage and number of loans that are made through each program to women, African Americans, Hispanics, Native Americans, Asians, veterans, and rural businesses.

SBA Microloan Demographics

Number of Loans and Percentage of Total Approvals by Year

	2001		2002		2003		2004	
	#	% of Total	#	% of Total	#	% of Total	#	% of Total
Loans to Women	1,118	44.7%	1,236	46.4%	1,153	45.4%	1,099	44.7%
Loans to African Americans	713	28.5%	700	26.3%	766	30.2%	608	24.8%
Loans to Hispanic Americans	332	15.5%	417	17.1%	370	15.6%	423	18.3%
Loans to Native Americans	62	2.5%	59	2.2%	32	1.3%	23	0.9%
Loans to Asian Americans	72	2.9%	100	3.8%	93	3.7%	96	3.9%
Loans to Veterans	207	8.3%	195	7.3%	183	7.2%	163	6.6%
Loans to Rural Businesses	867	34.7%	912	34.3%	954	37.6%	975	39.7%

SBA CommunityExpress Demographics

Number of Loans and Percentage of Total Approvals by Year	2001		2002		2003		2004	
	#	% of Total	#	% of Total	#	% of Total	#	% of Total
Loans to Women	152	46.77%	324	47.23%	1306	50.74%	2004	48.63%
Loans to African Americans	65	20.00%	171	24.93%	1097	42.62%	1738	42.17%
Loans to Hispanic Americans	44	13.54%	125	18.22%	365	14.18%	612	14.85%
Loans to Native Americans	6	1.85%	16	2.33%	60	2.33%	76	1.84%
Loans to Asian Americans	23	7.08%	81	11.81%	225	8.74%	331	8.03%
Loans to Veterans	37	11.38%	84	12.24%	337	13.09%	542	13.15%
Loans to Rural Businesses	1	0.31%	3	0.44%	196	7.61%	288	6.99%

1c. Please explain the fees charged to borrowers on SBA microloans compared to the fees charged to borrowers on 7(a) CommunityExpress loans.

There are no SBA fees associated with microloans, although intermediaries may charge microborrowers for services rendered (up to $100 per year), whether for training, loan administration, or counseling costs. The interest rates applicable to borrowers under the microloan program vary by the size of the loan. For loans of more than $10,000, the maximum interest rate is 7.75 percentage points over the rate charged by SBA to the intermediary. For loans of $10,000 or less, the maximum interest rate is 8.5 percentage points over the rate charged by SBA to the intermediary. The interest rate charged by SBA to the intermediary is generally the rate applicable to 5-year Treasury Bills, less 1.25 percent.

The SBA guaranty and servicing fees are the same for CommunityExpress as for regular 7(a) loans which, for a loan of $10,000, would amount to about $200. Lenders are allowed to charge modest fees for services actually provided under CommunityExpress, although they may not charge for any technical assistance provided. The maximum interest rate for CommunityExpress loans is the same as for standard 7(a) loans, which is 2.75 percent over the base rate (generally Prime) for maturities of 7 years or longer and 2.25 percent over the base rate for maturities of less than 7 years.

1d. If the SBA does close down the SBA Microloan program, how would it do that? What would happen to the portfolios of existing SBA microlenders? What would happen to the small businesses that have loans through these microlenders? What would the SBA do to prevent losses since there would be no technical assistance money to continue providing counseling to businesses with outstanding loans?

The loans by SBA to Microloan Intermediaries are ten-year notes. Accordingly, SBA would continue to service these loans, working with intermediaries to ensure repayment to SBA. The Intermediaries would, in turn, continue to service the outstanding loans to the microborrowers, in accordance with the terms and conditions of their loans agreements with the borrowers. Consequently, borrowers do not have to be affected. It should also be noted that intermediaries are not solely dependent upon the SBA program and will continue operating and providing assistance. However, to foster the continuing development of the microborrowers and to mitigate the risk of default, SBA will strongly encourage the intermediaries to refer microborrowers to SBA's extensive network of technical assistance providers, including the SBDCs, SCORE, and the Women's Business Centers.

1e. How much taxpayer money remains in outstanding SBA Microloans around the country if the Administration closes down the program? List the intermediaries, the states where they are located, and the amounts of outstanding microloans.

SBA Active Microlenders as of 3/31/05 with Outstanding Microloans as Reported by each Intermediary		
State	**Microlending Intermediary**	**Outstanding Microloans**
Alabama	BIRMINGHAM BUSINESS RESOURCE C	$389,886.53
Arizona	ARIZONA COUNCIL FOR ECOM CONVE	$210,245.78
Arizona	PPEP HOUSING DEVELOPMENT CORPO	$1,611,648.07
Arizona	PRESTAMOS CDFI, LLC	$1,738,084.37
Arizona	SELF EMPLOY. LOAN FUND, INC.	$216,987.62
Arkansas	FINANCING OZARKS RURAL GROWTH	$159,516.26
Arkansas	SOUTHERN FINANCIAL PARTNERS	$2,873,333.52
California	ARCATA ECON DEV CORP	$471,428.83
California	CALIFORNIA COASTAL RURAL DEVEL	$1,239,831.00
California	CDC SMALL BUSINESS FINANCE COR	$276,954.56
California	CSEARR	$2,123,232.00
California	OAKLAND BUSINESS DEVELOPMENT C	$490,222.70
California	PCR SMALL BUSINEES DEV CORP	$443,043.82
California	SIERRA ECONOMIC DEVELOPMENT DI	$476,571.88
California	VALLEY ECONOMIC DEVELOPMENT CT	$1,341,493.17
California	VALLEY SMALL BUSINESS DEV. COR	$682,140.14
Colorado	COLORADO ENTERPRISE FUND	$1,697,880.31
Colorado	GREATER DENVER LDC	$441,225 85
Colorado	REGION 10 LEAP, INC.	$331,826.71
Connecticut	COMMUNITY ECON. DEV. FUND FOUN	$706,056.62
Connecticut	CONNECTICUT COMMUNITY INV. COM	$1,901,899.03
Delaware	WILMINGTON ECONOMIC DEVE. CORP	$520,215.60
District of Columbia	COMM DEV TRANSP LENDI SERVICE	$113,000.00

District of Columbia	ENTERPRISE DEVELOPMENT GROUP	$1,753,750.92
District of Columbia	H STREET COMMUNITY DEV. CORP.	$784,523.65
District of Columbia	WHEELER CREEK	$0.00
Florida	CENTRAL FLORIDA COMMUNITY DEV.	$751,987.45
Florida	CLEARWATER NEIGHBORHOOD HOUSIN	$536,795.85
Florida	COMMUNITY EQUITY INVESTMENTS	$3,865,688.85
Florida	MINORITY/BUS. ENTER. ALLIANCE	$243,432.80
Florida	THE BUSINESS LOAN FUND OF PALM BEACHES	$869,959.21
Florida	WORKING CAPITAL FLORIDA	$358,073.00
Georgia	DEKALB ENTERPRISE BUSINESS COR	$161,809.30
Georgia	SBAC-GEORGIA	$527,874.76
Hawaii	PACIFIC GATEWAY CENTER	$711,604.50
Idaho	PANHANDLE AREA COUNCIL	$134,591.74
Idaho	SAGE COMMUNITY RESOURCES	$295,437.45
Illinois	ACCION CHICAGO, INC.	$1,595,902.93
Indiana	BLOOMINGTON AREA MICROENTERPRI	$112,100.00
Indiana	GARY EAST CHICAGO, HAMMON EMPOWERMENT ZONE, INC	$0.00
Iowa	SIOUXLAND ECON. DEV. CORP.	$596,319.00
Kansas	SOUTH CENTRAL KANSAS ECO DEV D	$1,358,442.10
Kentucky	BUFFALO TRACE AREA DEV DISTRIC	$60,807.63
Kentucky	COMMUNITY VENTURES CORPORATION	$4,201,939.05
Kentucky	KENTUCKY HIGHLANDS	$939,602.00
Kentucky	LOUISVILLE CENTRAL DEV CORP	$957,281.85
Kentucky	MOUNTAIN ASSOC. FOR COM. ECON.	$74,375.00
Kentucky	PURCHASE AREA DEVELOPMENT DIST	$416,072.54
Louisiana	NEWCORP BUS. ASSISTANCE CENTER	$149,251.75
Maine	ANDROSCOGGIN VALLEY COUNCIL	$473,908.49
Maine	COASTAL ENTERPRISES, INC.	$4,013,250.00
Maine	COMMUNITY CONCEPTS, INCORPORAT	$128,436.85
Maine	NO MAINE DEVELOPMENT COMMISSIO	$261,767.16
Maine	NO MAINE REGIONAL PLANNING COM	$664,784.73
Maine	MAINESTREAM FINANCE	$0.00
Maryland	MARYLAND CAPITAL ENTERPRISES I	$27,530.00
Massachusetts	DORCHESTER BAY NEIGHBORHOOD LO	$59,100.00
Massachusetts	ECON DEV INDUSTRIAL CORP OF LYNN	$380,552.26
Massachusetts	ECONOMIC STABILIZATION TRUST	$87,175.98
Massachusetts	GREATER SPRINGFIELD ENTREPR FU	$975,500.00
Massachusetts	JOBS FOR FALL RIVER, INC.	$267,139.31
Massachusetts	SOUTH EASTERN ECON DEV (SEED)	$918,056.22
Massachusetts	WESTERN MASS ENTERPRISE FUND	$737,019.74
Michigan	CENTER EMPOWERMENT & ECON. DEV	$604,003.64
Michigan	COMMUNITY CAPITAL DEV. CORP.	$833,703.37
Michigan	KENT AREA MICROBUSINESS LOAN S	$214,232.28
Michigan	NORTHERN INITIATIVES	$719,623.69
Michigan	RURAL MICHIGAN INTERMED. RELEN	$343,551.65
Michigan	SAGINAW ECONOMIC DEVEL. CORP.	$175,789.24
Minnesota	NORTHEAST ENTREPRENEUR FUND, I	$645,027.96

Minnesota	NORTHWEST MINNESOTA FOUNDATION	$638,410.88
Minnesota	SOUTHERN MN INITIATIVE FOUND.	$632,813.72
Minnesota	SOUTHWEST MINNESOTA FOUNDATION	$473,109.99
Minnesota	WOMEN VENTURE	$1,856,122.53
Mississippi	FRIENDS OF CHILDREN OF MS, INC	$333,847.67
Missouri	GO CONNECTION, INC.	$1,677,661.27
Missouri	JUSTINE PETERSEN HOUSING & RCO	$664,816.33
Missouri	RURAL MISSOURI, INCORPORATED	$2,622,715.30
Montana	MONTANA COMMUNITY DEV. CORP.	$483,422.94
Nebraska	COMMUNITY DEVELOPMENT RESOURCE	$47,678.94
Nebraska	RURAL ENTERPRISE ASSIST PROJEC	$1,121,991.30
Nebraska	WEST CENTRAL NEBRASKA DEV. DIS	$588,109.04
Nevada	NEVADA MICROENTERPRISE INITIAT	$941,357.40
New Jersey	COOPERATIVE BUSINESS ASSISTANC	$2,067,825.67
New Jersey	GREATER NEWARK BUSINESS DEV CO	$2,233,910.71
New Jersey	REGIONAL BUSINESS ASSIST. CORP	$2,174,763.62
New Jersey	UNION CO ECONOMIC DEVELOP CORP	$1,458,040.27
New Mexico	WOMEN'S ECONOMIC SELF-SUFFICIENCY TEAM	$965,851.57
New York	ADIRONDACK ECON DEV CORP	$875,048.26
New York	ALBANY COMMUNITY TOGETHER, INC	$132,936.30
New York	ALBANY-COLONIE REG.CHAM. OF CO	$190,226.58
New York	ALTERNATIVES FED. CREDIT UNION	$3,556,604.60
New York	BUFFALO & ERIE COUNTY ILDC	$140,681.62
New York	BUFFALO EC. RENAISSANCE CORP.	$152,493.56
New York	COLUMBIA HUDSON PARTNERSHIP	$751,903.59
New York	COM. DEV. CORP. OF LONG ISLAND	$1,319,981.76
New York	EAST HARLEM BUS. CAPITAL CORP.	$152,613.28
New York	NY ASSOC.FOR NEW AMERICANS, IN	$2,376,200.00
New York	RENAISSANCE ECON.DEV. CORP.	$624,588.77
New York	RURAL OPPORT.ENTERPRISE CENTER	$1,033,541.37
New York	WASHINGTON HEIGHTS AND INWOOD DEVEL. CORP.	$0.00
New York	ROME INDUSTRIAL DEVEL. CORP.	$0.00
North Carolina	NEUSE RIVER DEVEL. AUTHORITY,I	$254,994.47
North Carolina	SELF HELP VENTURES FUND	$7,760,553.45
North Carolina	W.A.M.Y. COMMUNITY ACTION, INC	$351,866.90
North Dakota	LAKE AGASSIZ REG. DEV. CORP.	$936,621.69
Ohio	ENTERPRISE DEVELOPMENT CORP.	$775,732.68
Ohio	HAMILTON CO DEVELOPMENT CO, IN	$741,954.14
Ohio	KENT REGIONAL BUSINESS ALLIANC	$147,452.65
Ohio	WECO FUND, INC.	$162,771.74
Ohio	WOMEN ORG. MENT. ENTRE. & NETW	$567,184.50
Ohio	COMM. IMPROVEMENT OF LAKE COUNTY	$0.00
Oklahoma	GREENWOOD COMMUNITY DEVELOPMEN	$141,926.01
Oklahoma	LITTLE DIXIE COMMUNITY ACTION	$143,490.09
Oklahoma	RURAL ENTERPRISES, INC.	$1,046,455.32
Oklahoma	TULSA ECONOMIC DEVELOPMENT COR	$343,833.05
Oregon	CASCADES WEST FINANCIAL SERVIC	$458,191.23
Oregon	OREGON ASSOCIATION OF MIN. ENT	$120,082.27

Oregon	SOUTHERN OREGON WOMEN'S ACCESS	$219,342.48
Oregon	UMPQUA COMMUNITY DEV. CORP.	$43,111.57
Pennsylvania	ALIQUIPPA ALLIANCE/UNITY & DEV	$325,082.49
Pennsylvania	COMMUNITY FIRST FUND	$566,466.55
Pennsylvania	COMMUNITY LOAN FUND OF SW PA I	$1,432,533.61
Pennsylvania	METROACTION, INC	$271,495.74
Pennsylvania	NORTH CENTRAL PA REG PLAN & DE	$427,233.70
Pennsylvania	NORTHEASTERN PA ALLIANCE	$83,359.07
Pennsylvania	NORTHSIDE COMMUNITY DEV. FUND	$92,655.99
Pennsylvania	NORTHWEST PENNSYLVANIA RPDC	$738,467.36
Pennsylvania	PHILADELPHIA COMMERCIAL DEV CO	$466,524.13
Pennsylvania	SEDA-COUNCIL OF GOVERNMENTS	$36,453.24
Pennsylvania	SOUTHERN ALLEGHENIES PDC/PA	$205,890.41
Pennsylvania	WASHINGTON CO COUNCL ON ECON D	$787,530.06
Pennsylvania	SOUTHERN ALLEGEHNIES PLANNING & DEVEL. COMM.	$0.00
Puerto Rico	CORP.ECON.DEV./CITY OF SAN JUA	$2,771,639.06
Rhode Island	RHODE ISLAND COAL. FOR MIN. IN	$530,718.83
South Carolina	CHARLESTON CITYWIDE	$490,967.00
South Dakota	LAKOTA FUND	$174,698.14
Tennessee	ECONOMIC VENTURES, INC.	$244,578.17
Tennessee	LEMOYNE OWEN COLLEGE COMMUNITY	$176,500.00
Tennessee	SOUTHEAST COMMUNITY CAPITAL	$636,843.30
Texas	ACCION TEXAS INC.	$1,858,216.90
Texas	BUSINESS RESOURCE CTR INCUBATO	$418,299.06
Texas	BUSINESSES INVEST IN GROWTH	$516,687.73
Texas	NEIGHBORHOOD HOU.SERVICES/DIMM	$215,052.66
Texas	RURAL DEVEL.AND FINANCE CORP.	$920,190.95
Texas	SAN ANTONIO LOCAL DEV CO INC.	$686,480.39
Texas	SOUTHERN DALLAS DEV. CORP.	$1,155,632.73
Vermont	ECONOMIC DEV COUNCIL/NO. VERMO	$200,485.51
Vermont	NORTHERN COMM INVEST CO	$660,904.66
Vermont	VERMONT DEVELOPMENT CREDIT UNI	$9,634.13
Vermont	OPPORTUNITIES CREDIT UNION	$0.00
Virginia	BUSINESS DEVEOPMENT CENTRE INC	$53,623.43
Virginia	CENTER FOR COMMUNITY DEVELOPME	$467,177.86
Virginia	RICHMOND ECONOMIC DEVEL. CORP.	$1,474,836.33
Virginia	SOUTHWEST VA COMMUNITY DEV FIN	$1,017,516.09
Virginia	TAP, THIS VALLEY WORKS	$193,294.27
Virginia	VIRGINIA COMMUNITY DEV LOAN FU	$521,081.78
Virginia	CRATER DEVELOPMENT COMPANY	$0.00
Washington	RURAL COMMUNITY RESOURCES DEV	$253,500.63
Washington	SEATTLE ECONOMIC DEV. ASSN.	$250,932.81
Washington	SNOHOMISH CO PRIVATE INDUS COU	$1,028,048.88
Washington	TRI-CITIES ENTERPRISE ASSN.	$209,424.38
Washington	WASHINGTON CASH	$134,013.52
West Virginia	LIGHTSTONE COMMUNITY DEV. CORP	$724,928.40
West Virginia	MOUNTAIN CAP OF WEST VIRGINIA	$47,463.28
West Virginia	UNLIMITED FUTURES	$0.00

Wisconsin	ADVOCAP	$223,790.00
Wisconsin	IMPACT SEVEN, INC.	$917,804.03
Wisconsin	LINCOLN NEIGHBOR. REDEV. CORP.	$272,021.64
Wisconsin	WWBIC	$3,532,459.32
Wyoming	WY CADVSA,WY WOMEN'S BUS. CTR.	$152,282.06

1f. For FY2001, 2002, 2003, 2004, and 2005, how much has the SBA allocated to the district offices for the SBA Microloan Program? In each of those years, excluding FY2005, how much was spent?

Funds are not allocated to the district offices specifically for individual programs. SBA's Office of Field Operations works with the regional and district offices to develop an overall budget for all field activities, of which Microloans is only one. The chart below shows total resources spent on the administration of the Microloan program, the Microloan technical assistance program, and the full costs borne by the field for this program. Note that the field costs are also included in the administrative cost. Field costs were not completely measured in FY 2001 and 2002.

MICROLOAN PROGRAM					
	Actual Costs (in thousands)				Estimated
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Microloans					
Administrative Cost	$ 3,089	$ 3,055	$ 6,230	$ 8,093	$ 8,313
Technical Assistance Line Item	$ 18,400	$ 17,804	$ 14,899	$ 14,655	$ 13,813
Field Costs	$ 451	$ 743	$ 1,438	$ 4,628	$ 4,679

<u>Proposal to eliminate the Small Business Investment Company (SBIC) Participating Securities Program.</u>

2a. In a September 2002 press release, Administrator Barreto said: "the SBIC program fills a gap between the availability of venture capital and the needs of small businesses. Over the years, the program has provided tremendous startup and growth opportunities for small businesses that otherwise would not have been possible, and we look forward to expanding those opportunities." Based on what data did the Administrator make this statement? Please provide the numbers and source.

It should be noted that the statement by Administrator Barreto referred to all SBICs, including non-leveraged (bank-owned), debenture, and participating securities SBICs.

The Investment Division based this statement on Table 10 of its January 2002 Statistical Package: <u>SBIC Program Share of Total Venture Capital Financings to Small Businesses Reported for Calendar Years 1997 to 2001</u>, which compares equity-type (pure debt financings are removed) SBIC Program financing to small businesses as reported on SBA Forms 1031 to Venture One numbers (VentureOne.com website). In general, the table indicates that the SBIC financing size ($) average was smaller than that of "non-SBIC" venture firms.

The data indicated that the average financing by SBICs was larger than the average financing provided by "angel" financiers (wealthy individuals) and smaller than the average financing by larger private venture funds and large pension funds such as CalPERS. The range of financing by angel investors is generally between $300,000 and $1 million, and the range of financing by the large venture funds is generally between $3 million and $10 million.

In addition to Table 10, the size of SBIC Program financing to small businesses was also based on Table 11 of the Statistical Package: SBIC Program Financing to Small Businesses Reported (For Financings of $15,000 or More Only), which shows the average and median financing by SBIC-type funds based on three criteria.

2b. Based on what data is the Administration now concluding that there is not a need for this program?

The Administration continues to strongly support the debenture and non-leveraged SBIC program. It is the Administration's position that, while the participating securities (PS) program has in the past provided start-up capital to small businesses, the flawed structure and $2.7 billion cost of the PS program outweighs the benefits.

The Administration acknowledges that the debenture program may not entirely fit start-up equity financing, though in many instances debenture financing with equity features can serve the same purposes.

2c. Based on what data has the Administration concluded that small businesses can be served through the SBIC Debenture program?

Based on a fifty year history of successful investment, we believe the SBIC debenture program will continue to do excellent work supporting small businesses looking for venture capital investments. This program continues to perform solidly and, in fact, many of the household names SBA has cited in the past (Nike, Intel, etc.) are products of the SBIC debenture program.

2d. From the Administration's statements, the SBIC Participating Securities program has lost more than $2 billion in the last two years, and the losses were caused by a combination of factors, including the bad economy and the profit participation structure. Venture capital is inherently risky, and it is unreasonable to expect the SBA's programs to be immune to those factors. Why didn't the Administration react sooner to mitigate losses?

Because venture funds have what is known as a "J-curve" in which a fund is expected to suffer some losses in the first few years due to operational expenses and write-downs, it usually takes at least 5 years to analyze fund performance. The first Participating Securities SBIC transferred for financial reasons did not occur until FY 2002. Up until FY 2002, the program was breaking even and cash flow was positive. In FY 2003, the SBA performed a re-estimate using the actual default data in the program and, at that time, the Administration informed Congress.

2e. What will happen to investments in our states if the Administration eliminates the SBIC Participating Securities program?

The Administration continues to strongly support the debenture and non-leveraged SBIC program, which provides venture capital financing. In fact, in FY 2004 the SBA made a total of 2,211 debenture and non-leveraged financings for $1,366.6 billion.

2f. According to the SBA's information, there are 11 Participating Security Licensees with Outstanding Commitments located in Massachusetts with combined outstanding commitments of $353,770,000. Last year 67% ($106 million) of SBA's SBIC investments in my state came from participating securities. How will the remaining active funds fulfill their plans to their investors and the SBA in its license when the SBA closes the program?

SBA is currently examining this problem, balancing its fiduciary responsibilities to the U.S. taxpayer against its responsibilities to the SBICs. Those funds could seek debenture funding where it supports their business plan.

2g. If the Administration closes the SBIC P.S. program, what is the last year that an investment would be made? Provide the most likely year, and the last year possible.

The SBICs can continue to make investments using Private Capital throughout their tenure in the PS program. If no new participating securities leverage is made available by Congress, the last year that PS SBICs can draw capital is FY 2008.

2h. As the program closes, what are the estimated investments each year to small businesses in Massachusetts?

SBA can not provide any definitive answer to this question. Investment decisions are made by SBIC management, and SBA imposes no geographic restrictions upon those investment decisions.

3. SBA's request for authority to charge a fee on 7(a) loans sold on the secondary market. The SBA is requesting authority to charge a fee on loans sold on the secondary market to make sure the "Master Reserve Fund" doesn't run short of funds leaving the government to pick up the cost of paying investors.

3a. Based on what data, by whom, is the fund going to run short?

The Agency developed a model of the Secondary Market Loan Pooling Program. This model was based on the data used for the Section 7(a) loan program subsidy model and the President's economic assumptions for upcoming years. This model predicts that the Master Reserve Fund will run out of money. Typically the fund pays higher interest rates to investors on 7(a) obligations than it earns on its cash balances (deposits).

3b. In what year does the data estimate a possible problem?

2017.

3c. Why does the SBA need the authority to charge a fee in FY2006 when the Master Reserve Fund is not expected to run short of funds in FY2006?

In 2004, SBA determined that the timely payment guaranty that the Agency makes under the Secondary Market Loan Pooling Program should be subject to the requirements of the Federal Credit Reform Act. This Act requires SBA to estimate the present value cost of a guaranty over its life.

Recent analysis of the SMG program revealed that under certain circumstances, mainly due to the fact that SBA receives interest income on MRF balances at the Treasury discount rate but pays out interest to investors at a Prime plus rate, a shortfall would arise. As such, the Agency is requesting the authority to impose small fees to maintain a zero subsidy rate for the program.

SBA made certain administrative changes to the program in FY 2005 to insure that pools created in FY 2005 would be self funding. SBA will have to continue to make administrative changes each year in order to make sure the program is self funding, which will reduce the efficiency and attractiveness of the Secondary Market Loan Pooling Program. By establishing a fee, SBA can keep the program parameters consistent each year and only adjust the fee, when necessary, to address any changes in the subsidy rate. We estimate that this fee would not exceed 5 basis points.

<u>Lender Oversight</u>

In the budget, the SBA talks about its loan and lender monitoring system. It says: "Utilizing credit scoring methodologies, the SBA now has information about the credit quality of the loan portfolios and is able to use that information along with performance trends to rate SBA lenders and assess portfolio performance." The Committee has gotten complaints from the industry that this system may have some problems. For example, a successful 504 lender was rated as high-risk even though the lender has a very low default rate.

5a. How can that happen and what action is taken against such a lender?

SBA believes the Loan and Lender Monitoring System (L/LMS) is performing as expected. With the credit scores provided in the system, SBA can gauge the credit quality of a lender's SBA loan portfolio by predicting future performance not just evaluating past performance. The system has been validated and found to be predictive of SBA's loan portfolio performance.

Evaluation of lenders is now based upon a combination of past performance on SBA loans (such as default rate) and expected future performance based on credit quality indicators (credit scores). It is, therefore, possible that in using credit scores, a lender could be identified as higher risk even if they weren't in the past (when only past performance was considered).

No action has been taken against a lender that has been identified as higher risk based on credit scores. If a lender is identified as such, generally either an on-site review is conducted (for larger lenders), or the lender is contacted and the situation discussed. If, based on further information, action is warranted, SBA will take appropriate supervisory steps.

5b. Does the loan monitoring system collect the credit score of each borrower in a lender or CDC's portfolio? If yes, going back to what year?

Since 2003, Dun & Bradstreet/Fair Isaac have included business borrower and principal credit scores among several factors to generate a small business predictive score for L/LMS. However, once the small business predictive score is calculated, the resulting information that Dun & Bradstreet uploads to RAM, which SBA uses for L/LMS.

5c. Because the SBA exists to fill the lending gap left by the private sector, explain how the loan monitoring system balances the fiscal soundness of a portfolio with tolerance for borrowers that rely on the SBA, such as borrowers who might be considered risky because of credit, or the stage of business, or type of business, or all three?

By virtue of its mission, SBA recognizes that its loan programs are necessarily more risky than non-guaranteed small business loan portfolios. However, SBA believes it is important to identify and understand SBA's actual risk exposure in order to evaluate and make appropriate policy determinations regarding SBA's loan programs. L/LMS only provides information and analysis. SBA management must use judgment to balance the factors referenced. This is done through analysis of loan portfolio and program performance as well as assessing lenders and more importantly, comparing their performance to peers with similar portfolios.

<u>**The PRIME Program**</u>

The Administration has proposed eliminating the PRIME program five years in a row. Last year, the SBA told the Committee that the agency did not have details regarding the number of clients counseled, total hours of counseling, average time spent with each client, economic profiles of clients assisted, demographic and sociological profiles of clients assisted, jobs created or retained, and the number of startups created by the program.

7a. Why is the Administration proposing to eliminate a program on which it has not kept or tracked even basic data, that it has not evaluated using the same criteria by which it evaluates other entrepreneurial development programs, and whose clients is knows so little about? What SBA program will address the needs of the PRIME client if it is eliminated, and how can you be sure if you don't even know who the clients are? If you have this data available, please provide it to the Committee.

SBA currently provides over $100 million in direct funding to support the provision of technical and management assistance to low income individuals that seek self employment as an option. By statute, the clients served by PRIME are essentially the same persons assisted by our other programs. This funding is augmented by substantial additional funding from the states, and it is further complemented by many additional local community economic development organizations and initiatives.

The Agency thus believes there are a variety of long established and more experienced alternatives to the PRIME program available. Included among these programs are SCORE, SBDCs, and Women Business Centers. While SBA does currently receive narrative reports from its PRIME grant recipients summarizing the assistance provided to small entrepreneurs under the program, we do not have the management information system infrastructure necessary to provide detailed data on individual participants in the program.

7b. Why did the Administration limit PRIME funding to 16 states and the District of Columbia? How were those states chosen? Please provide the Committee with background information regarding any state rankings and evaluations that were used.

With a PRIME funding level of about $5 million in FY 2004, the Agency recognized that very small grants distributed across all states were unlikely to elicit viable or substantive proposals from potential participants, particularly since funding to recipients systematically diminishes in subsequent years. The SBA focused available funding on about one-third of the states (including the District of Columbia), those with the highest levels of poverty. Prospective participants were thus solicited from those states which, according to Census Bureau data, had a poverty rate of 13 percent or more. From that solicitation, SBA received proposals from 72 entities, 24 of which appeared viable and met the Agency's participation requirements. This resulted in an average grant to these entities of about $180,000.

<u>The Women's Business Center Program</u>

8a. The administration's policy proposal that supports opening new women's business centers over funding existing experienced ones, assumes that after five years, women's businesses centers would be self-sustaining. It is also expected that women's business centers serve low-income entrepreneurs. First, how do you expect Women's Business Centers to become self-sufficient and continue to help low-income women who cannot afford to pay for services? Second, please identify any SBA women's business centers that have become self-sufficient and kept the same level of service for low-income women.

The WBC Program was originally intended to provide money to support training centers that would be self-sustaining at the end of the grant cycle. The required recipient match for the Federal grant funds increases during a WBC's period of participation in the program, thus helping to decrease the entity's reliance on Federal funds. As part of its annual post-award training with the WBCs, SBA provides training on sustainability, including fundraising. It is intended that by the end of a WBC's 5-year project term, a viable center will have established or strengthened its existing base of economic support within the community and the State sufficiently to be able to continue functioning without SBA support. The cooperative agreements between SBA and the WBCs are structured on this basis.

Sustainability funding will be available through FY 2005. We can report that the Detroit Entrepreneurship Institute, Inc. (MI), the only WBC that failed to qualify for sustainability funding in FY 2004, has continued to be self-sufficient and to provide services for low-income women.

<u>**Native American Assistance**</u>

9a. How does the agency plan to use the fiscal year 2005 appropriation for Native American outreach to assist Native American entrepreneurs? How much of the fiscal year 2005 budget for Native American outreach will be used for administrative costs?

SBA intends to fund Native American projects that are consistent with the Congressional mandate that we assist small businesses and economic development in tribal areas on the basis of need, and that the Agency conduct strong outreach to ensure that underserved tribes have the opportunity to participate in all the programs and resources of the SBA.

To ensure that these programs are appropriate to meet the needs of the tribal areas, SBA has established a strong working relationship with, and has sought input regarding appropriate funding needs and priorities, from the National Congress of American Indians (NCAI), the oldest and largest American Indian and Alaskan Native organization in the country.

SBA is also utilizing the results of an economic development study, obtained through an Interagency Agreement with the U.S. Census Bureau (funded from the FY 2003 appropriations), to identify underserved Native American tribal areas, and corresponding needs, gaps and priorities.

SBA intends to publish a Request for Proposal (RFP) soliciting proposals for Economic Development Projects in the priority areas of interest identified by the Agency. Proposals submitted in response to the RFP will be evaluated under existing Federal procurement guidelines.

Of the FY 2005 $1,000,000 appropriation, $220,539.95 (22 percent) will be utilized for salaries and expenses in connection with the program.

9b. What Native American Outreach programs funded in fiscal years 2003 and 2004 are still assisting Native American entrepreneurs today? What has been the impact of this funding on the local Native American communities served? Please provide any data available. If no data are available, please explain why.

There are a number of ongoing funded projects assisting Native American (NA) entrepreneurs. The impact and follow-up to these services will be measured utilizing the FY05 appropriation:

- *Southwestern Indian Polytechnic Institute (SIPI)* --100 training programs provided nationwide to pre-venture NA clients (to develop and implement a small business development training program for NA small businesses by customizing SBA's programs and services to meet the needs of tribal small business communities. The training program, which included sessions on how to start and grow a small business, were conducted in reservation communities across the country to reach the most isolated tribal areas of Native American small business owners; 100 training programs being provided nationwide to pre-venture NA clients.

- *Mandaree Enterprise Corporation* – virtual incubation of 20 NA small businesses. FY 2003 competitive contract, FY 2004 sole source contract, tribally-owned 8(a) company.
- *Intertribal Information Technology Co (IITC)* –business start-up assistance to 20 potential small businesses -- training and preparing them to be successful bidders and contractors on the Health Forest Initiative. The purpose of the Healthy Forests Initiative contract with IITC was to develop and train 20 Native American forest restoration companies that will participate in forest restoration and preservation. This company is a multi-tribal 8(a) firm. It has two sole source contracts funded from FY 2004 appropriations.
- *Tlingit and Haida Technology Industries* –development and implementation of a "train the trainer" small business program for 16 Native Alaskan tribes (FY 2004 appropriation; sole source contract—tribally-owned 8(a) company).
- *Kauffman and Associates, Inc.*–market research plans, message branding training and website development training for 50 NA firms (FY 2003: competitive contract, Indian-owned).
- *G&G Advertising*—FY 2003 competitive contract, FY 2004 sole-source contract—Indian-owned.

Women's Procurement Program

10a. When will the SBA implement the Women's Procurement Program that was passed into law December of 2000? Why was the SBA able to implement the procurement program for service-disabled veterans in six months, but it's taken over four years to implement the Women's program? Please provide a specific deadline. Also, please provide a detailed timeline of events regarding the implementation process, including any studies that are being conducted. Please provide information regarding the completion and necessity of those studies.

As you may be aware, this matter is in litigation with the U.S. Women's Chamber of Commerce and therefore we feel compelled to limit our response to only those aspects of your question that do not affect the litigation. Nevertheless, we do wish to point out that the reason SBA was able to implement the service-disabled veterans program in six months is because it is a race and gender neutral program, unlike the women's procurement program, and hence does not involve the constitutional issues the latter raises.

Office of Advocacy

11a. Administrator Barreto, given the concerns raised as a result of reports released by the Office of Advocacy regarding small business contracting by Federal agencies and given the clear signs from both the House and the Senate that Congress wishes to ensure a greater level independence for the Office of Advocacy, why would you recommend that the Research budget for that office be rolled into the budget for Executive Direction?

Most of the costs for the Office of Advocacy (Advocacy) are already borne by SBA's salaries and expenses budget. In FY 2005, the total cost of Advocacy's activities is estimated at $8.7M. (See page 26 of our FY 2006 Budget Submission.) Of that, less than $1.1M was funded through the line item. In our FY 2006 budget, we have requested a total of $9.1M. This includes $1.3M for Advocacy's research budget. We think that incorporating the budget for Advocacy's research into the budget for Executive Direction will maximize Advocacy's flexibility and simplify SBA's internal budget processes.

11b. Mr. Barreto, in your opinion, does incorporating the budget for Advocacy Research into the budget for Executive Direction increase or decrease the ability of the Office of Advocacy to perform research studies and report results that are not favorable to the current Administration, or even to the Administrator of the SBA, who is now responsible for that budget?

It is the Agency's belief that incorporating the budget for the Office of Advocacy's (Advocacy) research into the budget for Executive Direction will have no impact on the ability of Advocacy to perform research studies.

7(j) Technical Assistance

12a. Administrator Barreto, in last year's budget hearing this Committee raised concerns regarding the reduction in funding for the 7(j) Technical Assistance program. At that time, I raised concerns that the reduction in funds from $2 million to $1.5 million would hamstring the Agency's ability to provide the technical assistance that is so essential in Arkansas. I asked if $1.5 million was sufficient to offer the same level of services to those small firms who need it and you responded that it was. I see that you budget now increases that level back to $2 million. This time, is $2 million enough to offer the level of technical assistance needed by this nation's small firms or is that number closer to the $3.6 million, which was the funding level in previous years of this Administration?

The $1.5 million requested for the 7(j) training program is sufficient for FY 2005. During FY 2005, SBA streamlined the 7(j) training program to more effectively assist small businesses in high unemployment, low income areas of the country by:

- Reducing the cost of face-to-face 7(j) developmental business training by about 80 percent from $3,500 to around $625 per individual.
- Increasing the number of grass-roots 7(j) training locations by more than 500 percent to over 50 grass roots sites in FY 2005 vs. 10 in FY 2004.

- Doubling the number of small business owners benefiting from face-to-face 7(j) training from approximately 500 in FY 2004 to over 1,000 to date in FY 2005.

Based on current training capacity and small business demand, $2 million is sufficient funding for FY 2006.

12b. In your testimony, you stated that "while the SBA has reduced the funding for their programs, they have been able to reach more small businesses." Please provide the committee with the number of firms that received SBA funded technical assistance through the 7(j) program over the past five years.

The figures below reflect the number of small business that received technical assistance through the SBA-funded 7(j) program over the past (5) years. A substantial change in the delivery of business development training occurred in FY 2005 to increase face-to-face classroom participation and to increase the number of grass-root training locations.

Fiscal Year	Virtual and Face-to Face Training	Face-to-Face* Training Only
2000	2,132	
2001	2,252	
2002	2,201	
2003	6,431	
2004	4,000	500
Total	**17,016**	

*SBA began tracking face-to-face training separately from other training in FY 2004.

HUBZone

13a. During the hearing, questions were raised regarding the effectiveness of the HUBZone program. How does the SBA ensure that HUBZone firms are compliant with the employment and location requirements prior to awarding a contract?

HUBZone small business concerns (SBCs) are subject to continuing eligibility reviews throughout the term of certification. Each year, a portion of the HUBZone portfolio is subject to an extensive program examination that ensures full eligibility compliance. SBA will examine HUBZone SBCs based on information supplied directly to the HUBZone Program Office by government and non-government entities, or by the dollars earned by a firm through Federal contracts. The SBA also randomly selects HUBZone SBCs for program examination via a selection process generated by the HUBZone system.

In addition, firms that are selected to receive HUBZone contract awards from procuring agencies can be the subject of a status challenge through a formal protest. This protest can begin with a challenge entered by the SBA, the contracting officer, or an interested party. If SBA upholds a protest, it de-certifies the concern as a qualified HUBZone SBC.

Contracting

14a. During his testimony, Administrator Barreto announced that the Administration met their 23% goal for small business contracting in FY 2003. Given the recent report of miscoding firms in 2002, how can the Administrator be sure that the $65 billion in contracts he claimed actually went to small firms? Is the Administrator willing to go on record, in writing, and assure the committee that his figures are accurate?

The Administrator's testimony before the Committee on Small Business and Entrepreneurship was based on available Federal Procurement Data System-Next Generation data. SBA is aware of studies that report large businesses performing on small business contracts. The primary reason why contracts of large businesses are reported as small business is the development of new, long-term contracting vehicles, where a contract may last up to 20 years. SBA policies determine the small business status of a contractor at the time it submits its bid on a procurement solicitation. The government counts an award to a small business during the life of the contract. However for multiple award contracts and government-wide acquisition contracts, a small business must recertify its small business status at least at the option period of the contract, or usually within 5 years.

Consequently, the small business contracts are not miscoded in the sense that a large business was awarded a contract intended for a small business, but rather, a small business may become a large business during the life of the contract through growth or otherwise. This reflects the success the small business has achieved that may be attributed, in part, to its ability to obtain Federal contracts.

SBA does believe that its policies on reporting small business awards need to be revised to more accurately reflect the current size of the business. To this end, we are in the process of finalizing a size recertification rule that addresses when a business can be classified as small on long-term contracts.

GCBD Budget

15a. The budgets for the 8(a), HUBZone and several other programs are rolled into the overall funds for the office of Government Contracting and Business Development. Once the line item is eliminated and funding is incorporated into the GCBD budget, who has final discretion over the use of those funds?

SBA's Administrator has the final discretion regarding the use of the Agency's Salaries and Expenses funds. In the past line item funding has not been a guarantee of sufficient funding for either of these programs. 8(a) has not been provided separate line item funding in many years. Yet, in FY 2004, SBA devoted $34.9M to this very important program. In the case of HUBZones, line item funding has been inconsistent, yet SBA continued to fund the program. For example, in FY 2003 no line item funding was provided. Yet SBA obligated a total of $5.6M for HUBZones that year. In FY 2006, SBA is requesting $2.3M in direct HUBZone costs. The total cost of the program, including all indirect and overhead costs, is estimated at $7.3M for FY 2006.

15b. What assurance can the Administrator give the Committee that there will be the same level of transparency with regard to the use of funds for each of these programs now that their budgets have been absorbed by the overall budget for the office of Government Contracting and Business Development?

Both of these programs contribute to SBA's strategic plan. Each year in the budget we present the full cost of the programs, a performance plan which includes their activities, and specific quantitative goals for them. Please refer to pages 26–27,of our FY 2006 budget, which show the full cost of all SBA programs, including both 8(a) and HUBZones. Please refer to the goals in the Results and Resources tables (pp. 90-92 and 109 – 111) which also explicitly show our goals for these programs.

Management of the SBA

Based on the information provided by the General Accounting Office, the Administration has never gotten a clean audit.

FY 1999 - Unqualified (Clinton)
FY 2000 - Unqualified (Clinton)
FY 2001 - Unqualified (Clinton)
FY 2002 - Disclaimer (Bush)
FY 2003 - Disclaimer (Bush)
FY 2004 - Qualified (Bush)

16a. Explain why the SBA has not gotten a clean audit since FY2001.

As reported in the FY 2002 Independent Auditor's Report, SBA's Independent Auditor withdrew its prior clean audit opinions for FY 2000 and FY 2001 and issued a "disclaimed" audit opinion for FY 2002. The primary reason for the withdrawn and disclaimed opinions was the budgeting and accounting for the asset sales program which SBA conducted between FY 1999 and FY 2003. SBA's accounting and budgeting for the Master Reserve Fund was also an issue that contributed to the disclaimed opinion. During FY 2003, SBA conducted extensive analyses of these problems and resolved the key issues identified by the auditor. However, SBA was not able to complete the analyses and build the required new cost models in time to provide the auditor sufficient time to complete its testing and review procedures by the reporting deadlines. In FY 2004, SBA completed additional analyses recommended by our auditor and accelerated the financial reporting process to meet the November 15th deadline. While our auditor noted significant improvements, SBA encountered a few difficulties with producing our subsidy reestimates within the accelerated schedule and these problems ultimately resulted in a qualified opinion.

16b. Explain why data was not provided to the auditors in order to get a clean audit, and why it is still outstanding.

Throughout the audit process in FY 2002, FY 2003 and FY 2004, SBA's auditor requested extensive data and analyses from SBA, particularly surrounding the performance of SBA's loan programs and SBA's cost forecasting methods. SBA provided the auditor with all of the data requested and all of the analyses we had completed. In some cases, toward the end of the FY 2002 and FY 2003 audit cycles, the auditor requested analyses that SBA did not have time to complete by the reporting deadlines. During FY 2004 we were able to complete all requested analyses for the auditor.

Workforce Transformation & Realignment of Human Capital

17a. The Committee was told that the SBA has plans to offer another buyout to employees. What is the timeline for offering that buyout, how many employees will be eligible, which employees will be eligible, what is the succession plan, and how much time will they have to decide?

Please see the attached copy of our March 10, 2005, Information Notice to all SBA employees and the April 12, 2005, letter to you in response to our in-person briefing for the full committee on this matter.

Non-Credit Administrative Costs

18a. Please provide administrative costs for each non-credit program for fiscal years 2001-2005, and projected costs for fiscal year 2006. Also please provide a breakdown of those budgets.

Attached is a worksheet, entitled "Non-Credit Programs," which shows the line-item appropriation provided and the total administrative costs of each line-item program.

Line-Item

19a. It is troubling that the President has eliminated line-items from the budget request. What is the justification for transferring program funds from line-item, and what assurance do we have that the money will be used for that purpose, and how will it show in future budgets?

As stated in our answers to questions 15a and 15b, SBA has consistently funded the programs for which line-item funding has been provided. Line-item funding is provided for some, but not all of SBA's programs (e.g., line-item funding is not providing for SBA's 8(a) program). However, line-item funding rarely covers the full costs of the relevant programs. (See chart in response to question #18a). As SBA is providing additional resources for both direct and indirect costs for line item programs, and given that line item funding has not been consistent in the past (e.g., no such funding was provided for HUBZones in FY 2003), then SBA is already managing its resources to maintain these programs.

19b. Is the Administrator aware that eliminating the line-item funding for programs also eliminates the ability of the Congress to specify how the funds will be allocated in a program or prevents the use of funds allocated for a program to be used for any other purpose? Was that the intent?

SBA's intent is to have the flexibility to manage its resources and its programs as effectively as possible. As stated above, line-item funding has not guaranteed that our programs are fully or consistently funded from year to year.

<u>SBA Impact Study of Entrepreneurial Development Programs</u>

20a. It is my understanding that the SBA has been conducting a study of the impact of its entrepreneurial development programs. Please provide a copy of this study to the Committee.

In FY 2004, SBA's Office of Entrepreneurial Development (ED) conducted a survey of a sample of the clients that received business counseling during the 4th quarter of FY 2003 from the Agency's resource partners, including SBDCs, SCORE, and WBCs. This survey was undertaken in response to OMB's findings under the Program Assessment Rating Tool (PART) evaluation of the programs. OMB had noted that SBA lacked unbiased external impact evaluation data on the ED programs, and had strongly suggested that SBA initiate an independent external study for a period of time that would offer valid and reliable results, measuring both the customers' value-added view of the services received and the economic impact on the firms already in business that were counseled.

The study is designed as a three-year longitudinal impact study to measure all of the programs in a consistent and simultaneous manner. The FY 2004 data collection is regarded as a baseline survey. Information collected in the subsequent years of the study will be used to facilitate trend analysis, particularly on the financial growth of small businesses assisted by the resource partners.

20b. If the study is not yet complete, please provide information regarding why the study has not been completed and a date when it will be finalized and presented to the Committee.

The study is a three year longitudinal effort and the first year, which is the baseline year, has been completed. However, further research and refinement is necessary. This year SBA will re-survey the FY 2003 clients, and will begin a second survey effort with clients served by SBA's partners (SBDCs, WBCs and SCORE) during FY 2004. Each year's clients will be followed for three years--the baseline year plus two additional years.

The study of the FY 2003 clients will conclude in FY 2006, at which time the formal findings will be presented to the Committee.

20c. What entrepreneurial development programs are being studied and what information is being gathered and examined? If any programs were excluded from the study, please explain why. Please provide a detailed summary of initial findings for each entrepreneurial development program studied.

All three of the Agency's ED programs -- SBDCs, WBCs and SCORE -- were included in the study. Further research and refinement is needed regarding the initial survey, and the study of the FY 2003 clients will conclude in FY 2006, at which time the formal findings will be presented to the Committee.

20d. When did the study begin, and which organization is conducting the study?

The first year study was conducted during FY 2004 and included clients that received ED counseling assistance during the 4th quarter of FY 2003. SBA designed the survey in consultation with an independent panel of nationally recognized entrepreneurship researchers, and received OMB approval of the methodology. The Agency then contracted with Concentrance Consulting Group, a women-owned minority small business, to conduct the study and report on its findings.

20e. What, if any information, was not obtained regarding the programs being studied?

The survey questions and methodology were reviewed by an independent panel of nationally recognized entrepreneurship researchers, and by OMB. As noted in the initial year's report, "[i]nformation in subsequent years will be collected to facilitate trend analysis, particularly on financial growth of small businesses assisted by SBA."

Attachment to Question 17a

SBA Information Notice

TO: All SBA Employees **CONTROL NO.:** 3000-2461

SUBJECT: Opportunity for Voluntary Separation Incentive Payment and Voluntary Early Retirement Authority **EFFECTIVE:** 3/10/2005

This notice announces an opportunity for some employees to apply for Voluntary Separation Incentive (VSIP) and the Voluntary Early-Out Authority (VERA). Employees in the Office of Inspector General (OIG) and the Office of Advocacy are excluded from these offers. The Office of Disaster Assistance will publish a separate notice regarding their position on VSIP and VERA.

The Homeland Security Act of 2002 (Public Law 107-296) authorizes most Executive branch agencies undergoing restructuring, including the Small Business Administration (SBA), to offer VSIP to employees who voluntarily separate by immediate retirement or resignation. In addition, the Office of Personnel Management (OPM) has approved a VERA to help us successfully reach our restructuring goals. Our use of the VSIP and VERA options will assist us in streamlining Agency operations, and minimizing or even avoiding involuntary actions such as reduction in force (RIF).

VSIP Agreement—

We will authorize VSIP payments to a maximum of 300 eligible employees who voluntarily separate by retirement or resignation from SBA during March 14, 2005 through April 14, 2005.

If you are interested in submitting an application for VSIP, you are to complete these initial steps:

- Applicants must sign the attached SBA FY 2005 VSIP Agreement:
- The immediate supervisor must acknowledge, via signature, that he/she is aware that an applicant is submitting a VSIP Agreement for consideration before the Agreement is transmitted (by applicant or supervisor) to the Office of Human Capital Management (OHCM). Agreements received in OHCM without the immediate supervisor's signature will not be valid.
- All agreements must be faxed to 202-481-5951, by close of business (5:00 p.m. EST) on April 14, 2005. Agreements faxed after this date will not be considered. No hand delivery agreements will be accepted.
- Applicants will receive an acknowledgement of receipt from OHCM.

EXPIRES: 6/1/2005

- Applicants approved for VSIP must be off the Agency's rolls no later than May 31, 2005.

A subsequent information notice will be published containing further guidance on the VSIP/VERA process.

Eligibility—

You are eligible to apply for a VSIP if you:

- Are a GS-11 through GS/GM-15 career/career conditional, excepted service (i.e., attorneys) employees in the competitive service in any title or series;
- Submit your agreement before the closing date: close of business (5:00 p.m. EST) on April 14, 2005;
- Apply for voluntary optional retirement, retire under voluntary early retirement, or voluntarily resign by May 31, 2005; and
- Do not meet any of the exclusions below.

Statutory Exclusions from VSIP Eligibility—

You are excluded by law from VSIP eligibility if you:

(1) Are a reemployed annuitant;
(2) Have a disability on the basis of which you would be eligible for a disability retirement;
(3) Are serving under an appointment with a time limitation, i.e., TERM appointment;
(4) Have received a written decision of involuntary separation because of misconduct or unacceptable performance;
(5) Previously received a VSIP from any Federal agency;
(6) Are an employee covered by statutory reemployment rights who is on transfer employment with another organization;
(7) Have not been employed in the Federal government without a break in service for 3 continuous years;
(8) Are an employee who—
   a. during the 36-month period preceding the date of separation, performed service for which a student loan repayment benefit was or is to be paid under section 5379;
   b. during the 24-month period preceding the date of separation, performed service for which a recruitment or relocation bonus was or is to be paid under section 5753;
   c. during the 12-month period preceding the date of separation, performed service for which a retention bonus was or is to be paid under section 5754.

Amount of Payment—

By law, the amount of the VSIP is an amount equal to the lesser of your severance pay entitlement, or $25,000. We use the statutory severance pay formula in 5 U.S.C. 5595(c) to calculate the amount of severance pay. However, the law limits the maximum VSIP payment to $25,000. Download this VSIP worksheet from the hyperlink, to calculate an estimate of your VSIP amount.

Separation Application—

If you apply to retire or resign with a VSIP/VERA, you must sign an agreement that your decision to separate is entirely voluntary and not coerced.

You must also agree in the signed VSIP agreement to repay SBA the **gross** amount of the VSIP before you are later reemployed by the Federal Government of the United States under (1) an appointment for compensation, (2) a personal services contract, or (3) other direct contract, within 5 years of the date of your separation for the VSIP.

The VSIP separation agreement serves as a binding commitment for you to voluntarily retire or resign (as applicable) during the VSIP window period. If we do not select you to receive a VSIP under our plan, you are not required to retire or resign under the VSIP separation agreement.

Note that in special situations, a hiring agency may request OPM to waive the VSIP repayment requirement before the agency appoints a former employee to a position. However, no agency has authority to request a waiver of the repayment requirement involving a personal services or other direct contract. (See this attachment, VSIP Q & As 2005.DOC, for more information)

Voluntary Early Retirement Authority (VERA)—

SBA is also providing an early retirement opportunity for eligible SBA employees through April 14, 2005, with the exception of employees in OIG and Office of Advocacy. The ODA will provide its employees with guidance on VERA.

In order to be eligible to retire under a VERA, by the date of separation, you must:

a. Be at least age 50 with 20 years of service or have completed 25 years of service. Eligibility requirements are the same for employees in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS); however, employees under CSRS take a 2% reduction for each year they are under age 55. Employees under FERS do not take an age reduction;
b. Have served in a position covered by CSRS for at least 1 year out of the 2 years immediately before retirement (this requirement does not apply to FERS employees);
c. Be serving under a non-temporary appointment; and
d. Have been on SBA's rolls at least 31 days before the Agency request to OPM for VERA, and remained continuously on the agency's rolls since that time. (See this attachment, VERA Q & As, for more information.)

Fact Sheet for Prospective Retirees--

This fact sheet provides retirement eligible employees with guidance on the retirement process. It also has hyperlinks to required forms needed for retirement.

OHCM Assistance and Counseling--

Applying for VSIP and/or VERA is a completely voluntary option for you. To help you make a decision, our retirement specialists in our OHCM offices in Washington, DC and Denver can provide you with a computation of your retirement annuity (if applicable). If you would like a retirement estimate, please complete the attached "Retirement Estimate Request" form. Retirement counselors will be available to provide you with assistance, telephonically, or through group sessions (prearranged).

Peggy Flores, OHCM-Denver
Small Business Administration
721 19th Street, Room 392
Denver, CO 80202-2500
Service areas: All regional and district offices and all offices serviced by OHCM-Denver

Joan Redd, HQ-Washington, DC
Small Business Administration
409 Third Street, SW
Washington, DC 20416
HQ and all field offices serviced by HQ

If you have any questions regarding the contents of this notice, please contact La Gibson at 202-205-6167.

Hector V. Barreto, Jr.
Administrator

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

APR 1 2 2005

OFFICE OF THE ADMINISTRATOR

The Honorable John F. Kerry
Ranking Member
Committee on Small Business and Entrepreneurship
United States Senate
Washington, DC 20510-6350

Dear Senator Kerry:

Thank you for your letter dated March 25, 2005, regarding SBA's briefing to committee staff on March 21, 2005 regarding the Agency's Voluntary Separation Incentive Payment (VSIP) and the Voluntary Early Retirement Authority (VERA).

The following is submitted in response to your questions set forth in your letter. Please note that the answers apply to the Agency's VERA/VSIP for regular funded employees only.

1) **The Committee received a chart showing the number of SBA employees in each state that are eligible for the buyout. However, the chart did not identify how many total SBA employees are currently assigned to each state, which is important to understanding the potential impact on small businesses. Please resubmit the chart and include the number of SBA employees in each state. Provide that information for FY 2001, FY 2002, FY 2003, FY 2004, and FY 2005. For FY 2005, also include again the number eligible for the buyout.**

   Enclosure 1 contains the requested information for FY 2001 through FY 2004 for each state. The FY 2005 chart in this attachment now includes the number of SBA employees in each state who are eligible for optional/VERA retirement.

2) **How many SBA employees between the levels of GS-11 and GS-15 are currently eligible for retirement?**

   Currently there are 377 regular funded employees between the levels of GS-11 and GS-15 who are eligible for optional retirement (as opposed to early retirement under VERA).

3) **There have been cases in Federal employee buy-outs that extend the departure date of essential employees for up to one calendar year. Will this structure be included as a part of the negotiated controls of this buyout? Please explain your answer.**

   The Information Notice sent by SBA to its employees regarding the VSIP/VERA opportunity included an attachment entitled "Questions and Answers (VSIP/Buyouts)" that addressed this issue. As set forth in that document, the Agency can delay a separation until after May 31, 2005, and still give an employee an incentive payment when he or she leaves. Requests for a delayed separation may be reviewed on a case-by-case basis by a management official as long as the VSIP applications are timely filed and approved. See Enclosure 2, "Questions and Answers (VSIP/Buyouts)," - question # 14.

4) **How many applications for the buyout has the SBA received as of today, March 25, 2005, and how many of those applications are from field offices? Please list the field offices that would lose employees if their buyout request were to be accepted.**

   As of April 1, 2005, SBA had received 161 applications,130 of which were from field offices. See Enclosure 3 - "Field Office Listing."

5) **Please explain why a supervisor must approve an employee's acceptance of the buyout offer.**

   Supervisors do not approve buyout applications. The employee fills out the VSIP Agreement and the supervisor signs that agreement acknowledging the employee's buyout request. This is necessary to assist the supervisor in formulating a workforce succession plan. See Enclosure 4 – "SBA FY05 VSIP Agreement."

6) **The Agency says that it had legal authority to send out the offer to employees before it reached agreement with the Union. Please provide documentation of that legal authority.**

   SBA notified employees of the VERA/VSIP opportunity on March 10, 2005. In accordance with the governing Master Agreement, SBA provided the Union 15 days notice to request negotiations regarding the VERA/VSIP. The Union responded to the notice within the required time frame, and it is anticipated that these negotiations will commence shortly.

7) **Are there any other workforce transformation offers or directions planned for FY2005?**

No further use of the Agency's current VERA/VSIP authority is presently anticipated. However, SBA has authority to offer VERA through September 30, 2005.

If you have questions or need additional information, please contact Anthony Bedell, Associate Administrator for Congressional and Legislative Affairs, at 202-205-6700.

Sincerely,

Hector V. Barreto

Hector V. Barreto
Administrator

Enclosures

Enclosure 1

PAGE 1

SBA EMPLOYEE COUNT AS OF 09/30/2001, excluding the Offices of Disaster Assistance, Advocacy and Inspector General

STATE	
AK	19
AL	63
AR	51
AZ	27
CA	341
CO	144
CT	27
DC	720
DE	5
FL	69
GA	60
GU	14
HI	23
IA	30
ID	13
IL	68
IN	27
KS	21
KY	45
LA	26
MA	46
MD	29
ME	18
MI	39
MN	28

PAGE 2

SBA EMPLOYEE COUNT AS OF 09/30/2001

STATE	
MO	73
MS	21
MT	16
NC	36
ND	19
NE	18
NH	14
NJ	31
NM	19
NV	20
NY	117
OH	57
OK	24
OR	27
PA	82
PR	42
RI	15
SC	26
SD	14
TN	23
TX	180
UT	22
VA	33
VI	9
VT	15

PAGE 3

SBA EMPLOYEE COUNT AS OF 09/30/2001

STATE	
WA	46
WI	30
WV	21
WY	14
TOTAL	3017

PAGE 1

SBA EMPLOYEE COUNT AS OF 09/30/2002, excluding the Offices of Disaster Assistance, Advocacy, and Inspector General

STATE	
AK	18
AL	58
AR	49
AZ	24
CA	322
CO	133
CT	25
DC	715
DE	5
FL	71
GA	55
GU	12
HI	22
IA	29
ID	13
IL	67
IN	26
KS	19
KY	39
LA	26
MA	44
MD	28
ME	16
MI	36
MN	25

PAGE 2

SBA EMPLOYEE COUNT AS OF 09/30/2002

STATE	
MO	74
MS	17
MT	16
NC	34
ND	19
NE	18
NH	14
NJ	30
NM	17
NV	20
NY	112
OH	55
OK	23
OR	25
PA	77
PR	36
RI	15
SC	25
SD	13
TN	23
TX	178
UT	21
VA	32
VI	7
VT	16

PAGE 3

SBA EMPLOYEE COUNT AS OF 09/30/2002

STATE	
WA	47
WI	30
WV	20
WY	13
TOTAL	2904

PAGE 1

SBA EMPLOYEE COUNT AS OF 09/30/2003, excluding the Offices of Disaster Assistance, Advocacy, and Inspector General

STATE	
AK	15
AL	55
AR	46
AZ	22
CA	298
CO	126
CT	25
DC	726
DE	4
FL	65
GA	55
GU	9
HI	21
IA	27
ID	12
IL	63
IN	22
KS	19
KY	36
LA	25
MA	43
MD	26
ME	15
MI	32
MN	25

PAGE 2

SBA EMPLOYEE COUNT AS OF 09/30/2003

STATE	
MO	67
MS	14
MT	15
NC	31
ND	17
NE	13
NH	14
NJ	29
NM	16
NV	20
NY	105
OH	48
OK	20
OR	24
PA	71
PR	35
RI	14
SC	19
SD	12
TN	22
TX	160
UT	21
VA	29
VI	5
VT	15

PAGE 3

SBA EMPLOYEE COUNT AS OF 09/30/2003

STATE	
WA	48
WI	30
WV	17
WY	13
TOTAL	2756

PAGE 1

SBA EMPLOYEE COUNT AS OF 09/30/2004, excluding the Offices of Disaster Assistance, Advocacy and Inspector General

STATE	
AK	15
AL	47
AR	38
AZ	19
CA	262
CO	118
CT	17
DC	664
DE	5
FL	60
GA	52
GU	3
HI	20
IA	20
ID	10
IL	61
IN	19
KS	16
KY	34
LA	17
MA	32
MD	24
ME	13
MI	25
MN	23

PAGE 2

SBA EMPLOYEE COUNT AS OF 09/30/2004

STATE	
MO	54
MS	14
MT	9
NC	29
ND	14
NE	12
NH	9
NJ	32
NM	12
NV	17
NY	88
OH	41
OK	14
OR	18
PA	58
PR	27
RI	10
SC	13
SD	11
TN	18
TX	141
UT	15
VA	81
VI	4
VT	12

PAGE 3

SBA EMPLOYEE COUNT AS OF 09/30/2004

STATE	
WA	40
WI	26
WV	11
WY	11
TOTAL	2455

Enclosure 1

SMALL BUSINESS ADMINISTRATION

FY 2005

As of April 1, 2005

State	Number of Employees	Eligible for Optional/ VERA Retirement	State	Number of Employees	Eligible for Optional/ VERA Retirement
Alabama	46	7	Maryland	23	13
Alaska	15	9	Massachusetts	32	15
Arizona	19	9	Michigan	25	15
Arkansas	40	10	Minnesota	22	13
California	257	81	Mississippi	14	5
Colorado	124	35	Missouri	54	39
Connecticut	17	8	Montana	10	7
Delaware	5	2	Nebraska	12	7
District of Columbia	662	244	Nevada	17	10
Florida	59	27	New Hampshire	9	5
Georgia	53	31	New Jersey	31	18
Guam	3	1	New Mexico	12	6
Hawaii	19	7	New York	87	36
Idaho	8	4	North Carolina	28	11
Illinois	58	29	North Dakota	13	6
Indiana	19	10	Ohio	41	17
Iowa	18	8	Oklahoma	13	3
Kansas	16	8	Oregon	17	11
Kentucky	33	11	Pennsylvania	54	30
Louisiana	18	10	Puerto Rico	26	10
Maine	13	10	Rhode Island	10	5

The table excludes employees of the Office of Disaster Assistance, the Office of the Inspector General, and Advocacy.

State	Number of Employees	Eligible for Optional/ VERA Retirement	State	Number of Employees	Eligible for Optional/ VERA Retirement
South Carolina	12	6			
South Dakota	9	3			
Tennessee	16	9			
Texas	137	63			
Utah	15	8			
Vermont	12	5			
Virgin Islands	4	1			
Virginia	82	41			
Washington	41	19			
West Virginia	10	5			
Wisconsin	26	12			
Wyoming	11	6			
Totals:	2,427	1,021			

Enclosure 2

Questions and Answers
Voluntary Separation Incentive Payments (VSIP/Buyouts)

1. **What are Voluntary Separation Incentive Payments?**

   Separation incentive payments are also known as buyouts. A buyout is a lump sum payment made by an agency to employees who volunteer to resign or retire during a period of major change. The amount of the VSIP cannot exceed $25,000 per person.

2. **Does accepting a buyout affect my eligibility for retirement?**

   No. If you are under the Federal Employees Retirement System (FERS) or the Civil Service Retirement System (CSRS), you can take regular optional retirement at 55 with at least 30 years of service; at 60 with 20 years of service; or at 62 with 5 years of service. For early retirement, you must be at least 50 with 20 years of service or have 25 years of service at any age.

3. **Who is eligible to apply for a buyout?**

   You must meet the following categories to apply for the VSIP:

   A. Are a GS-11 through GS/GM-15 career/career conditional, excepted service (i.e., attorneys) employees in the competitive service in any title or series;
   B. Submit your agreement before the closing date: close of business (5:00 pm EST) April 14, 2005;
   C. Voluntary optional retirement, under voluntary early retirement, or voluntarily resign by May 31, 2005; and
   D. Do not meet any of the exclusions below.

Statutory Exclusions from VSIP Eligibility—

You are excluded by law from VSIP eligibility if you:

(1) Are a reemployed annuitant;
(2) Have a disability on the basis of which you would be eligible for a disability retirement;
(3) Are serving under an appointment with a time limitation, i.e., TERM appointment;
(4) have received a written decision of involuntary separation because of misconduct or unacceptable performance;
(5) Previously received a VSIP from any Federal agency;
(6) Are an employee covered by statutory reemployment rights who is on transfer employment with another organization;
(7) Have not been employed in the Federal government without a break in service for 3 continuous years;
(8) Are an employee who—
   a) during the 36-month period preceding the date of separation, performed service for which a student loan repayment benefit was or is to be paid under section 5379;
   b) during the 24-month period preceding the date of separation, performed service for which a recruitment or relocation bonus was or is to be paid under section 5753;

c) during the 12-month period preceding the date of separation, performed service for which a retention bonus was or is to be paid under section 5754.

4. **What does an "appointment with a time limitation" mean?**

An employee on an appointment with a time limit works only until a specified date and then goes off the rolls. The employing agency sets the ending date when it hires the individual and/or when it extends the appointment. For example, temporary and term employees serve with a time limit, so they are not eligible for an incentive payment. Career and career-conditional employees and permanent employees in the excepted service have no limit so they may be eligible, based on their years of service and age.

5. **What does "continuous service" mean?**

To be eligible for an incentive payment, you must have 3 years of continuous service with the Federal government with no breaks. Going off the rolls for even 1 day is a break in service and would disqualify you for an incentive payment.

6. **I retired from the military but, I am now a civilian employee. Can I apply for a separation incentive?**

Yes, if you are otherwise eligible. SBA will figure the incentive payment only on the basis of your civilian service.

7. **When is the earliest I can leave with an incentive payment? When is the latest?**

Once you receive written approval of your application, you may separate. May 31, 2005 is the latest you may separate. See Item 14 below for guidance on a delayed separation.

8. **How much will I get as an incentive payment if I separate?**

The amount of severance pay would be 1 week's basic pay for each of the first 10 years of your civilian service, plus 2 weeks' basic pay for each year over 10 years. An age adjustment allowance of 10% is added for each year you are over 40. (No credit is given for military service unless the service interrupted otherwise creditable civilian service and the employee returned to civilian service through the exercise of a legal restoration right.)

An incentive payment is the amount of severance pay you would get, or $25,000—**whichever is less.** Severance pay is normally only for people who separate involuntarily. Leaving Federal service with an incentive payment is a voluntary action.

9. **When will I receive my incentive payment? Will it be all at once (lump sum) or monthly? Is it taxable?**

The incentive payment will be sent as soon as possible after the date of your separation. Because we must first resolve any leave errors, salary offsets, and employee debts to the Government, we cannot guarantee a specific date. Payment is also subject to garnishment for alimony and child support. The incentive payment is taxable. You will receive it as a lump sum (less Federal tax withholding, applicable State/local taxes, FICA/Medicare).

10. Do I have to make a commitment to leave if I accept an incentive payment?

You will be asked to sign an agreement which says that, in exchange for an incentive payment, you agree to voluntarily resign or retire on a specific date. Although the separation is voluntary and generally can be withdrawn by the employee at any time prior to separation, in some cases the agency can require an employee to honor his or her agreement and separate the employee with a buyout on the agreed upon date.

In such cases, the agency must show that harm or disruption would occur as a result of the employee's retention. In a 1994 Merit Systems Protection Board decision (Cook v. Department of Defense, SL-0752-93-0406-I-1, June 22, 1994), MSPB found that employees who offer to resign in return for a buyout must be allowed to withdraw their buyout agreement prior to separation unless the agency can demonstrate a valid reason for denying the request. The Board cited situations in which an agency had already made commitments to place another employee in the position, or had abolished the position, as examples of valid reasons for denying the request to withdraw the buyout agreement.

Employees are urged to take the application for an incentive seriously and be prepared to separate on the agreed date in the event that SBA has a valid reason to deny the employee's request to withdraw the buyout agreement.

11. What does the incentive payment application/agreement say?

The agreement says that you agree to leave by a certain date in return for the incentive payment. It also says that if you accept an incentive payment and subsequently become reemployed with the Government of the United States, in either a temporary or permanent status or under a personal services contract, for 5 years following the effective date of your separation, you will be required to repay the full gross amount of the incentive payment prior to your first day of employment. (In rare and extraordinary circumstances, waivers may be permitted by the Office of Personnel Management. Refer to 5 USC Section 3524.)

12. May I take a Discontinued Service Retirement and an incentive payment?

No. Incentives are paid to employees who leave voluntarily. Discontinued Service Retirement is based on an involuntary separation.

13. If I leave with an incentive payment, can I take a job in another Federal agency? Am I eligible for placement assistance?

If you have retired or resigned with an incentive payment, you must repay the entire amount of the incentive if you take a job with the Federal Government within 5 years of your separation date. This repayment requirement covers any kind of employment (for example, permanent, temporary, expert, consultant, re-employed annuitant) as well as personal services contracts. (In rare and extraordinary circumstances, waivers may be permitted by the Office of Personnel Management. Refer to 5 USC Section 3524.)

You are not entitled to any placement assistance or selection priority because employees volunteer to leave Federal service with an incentive payment. Placement assistance is for employees who are involuntarily separated.

14. Can SBA delay my separation until after May 31, 2005 and still give me an incentive payment when I leave?

Yes. Requests may be reviewed on a case-by-case basis by management official as long as the VSIP applications were timely filed and approved.

15. Leaving Federal service with the incentive payment is supposed to be voluntary. If I'm eligible, but don't choose to leave, can SBA retaliate by moving me to another position?

Incentives are for voluntary separations. Coercion is prohibited. However, after the window closes, the agency continues to have the authority to reassign employees. The agency must follow requirements of law, regulation, and applicable negotiated procedures.

16. What is a personal services contract or direct contract with the Federal?

Federal employees who take a VSIP (a buyout) under Section 1313(a) of Public Law 107-296 (the Homeland Security Act of 2002) or comparable legislation must repay the entire gross amount of the buyout if the individual enters into a personal services contract, or other direct contract, with the Federal Government within 5 years after separation for the buyout.

Background: Congress initially authorized the buyout repayment requirement through approval of Section 3(d)(1) in Public Law 103-226. Section 3(d)(3) of Public Law 103-226, and many of the nearly three dozen other buyout laws or amendments approved after March 1994, defined employment with the Government of the United States as including employment under a **Personal Services Contract** with the United States.

Section 1313(a) of Public Law 107-296 added a new section 5 U.S.C. 3524(b) that similarly defines **Employment** for purposes of the buyout repayment requirement to include any employment "Under a personal services contract or other direct contract with the Government of the United States, but not with a legislative branch entity."

Section 48 CFR 37.101 defines a **Personal Services Contract** as:

"...a contract that, by its express terms or as administered, makes the contractor personnel appear, in effect, Government employees."

A **Nonpersonal Services Contract** is distinguishable from a personal services contract in that:

"...the personnel rendering the services are not subject, either by the contract's terms or by the manner of its administration, to the supervision and control usually prevailing in relationships between the Government and its employees."

Further, a Service Contract means that the time and effort of the contractor is directly engaged in performing an identifiable task, rather than to furnish an item of supply. It may either be personal or nonpersonal in nature.

Section 48 CFR 37.104(a) describes a personal services contract as one which is "characterized by the employer-employee relationship it creates between the Government and the contractor's personnel. An employer-employee relationship exists when: "...contractor personnel are subject to the relatively continuous supervision and control of a Government officer or employee." (48 CFR 37.104(c))

The key question which must be asked in making a determination as to whether or not a contract is for personal services is, "Will the Government exercise relatively continuous supervision and control over the contractor personnel performing the contract?" (48 CFR 37.104(c)(2))

The following six characteristics should be used as a standard, according to section 48 CFR 37.104(d), in determining whether or not a contract is personal in nature:

(1) Performance on site.

(2) Principal tools and equipment furnished by the Government.

(3) Services are applied directly to the integral effort of agencies or an organizational subpart in furtherance of assigned function or mission.

(4) Comparable services, meeting comparable needs, are performed in the same or similar agencies using civil service personnel.

(5) The need for the type of service provided can reasonably be expected to last beyond one year.

(6) The inherent nature of the service, or the manner in which it is provided, reasonably requires directly or indirectly, Government direction or supervision of contractor employees to retain control of the function involved; or retain full personal responsibility for the function supported in a duly authorized Federal officer or employee.

Agencies (and employees considering employment with a contractor) are advised to seek further guidance from their General Counsel's office when considering contracting with a former Federal employee who has taken a buyout.

Enclosure 3

SMALL BUSINESS ADMINISTRATION

Field offices that would lose employees if their buyout request were accepted
(As of April 1, 2005)

Location	Offices	Location	Offices
1. Alabama	Birmingham	21. New York	Melville
2. Alaska	Anchorage		New York
3. Arizona	Phoenix		Syracuse
4. California	Fresno	22. North Carolina	Charlotte
	Glendale	23. Ohio	Cleveland
	Los Angeles	24. Oklahoma	Oklahoma City
	Sacramento	25 Oregon	Portland
	San Diego	26. Pennsylvania	Harrisburg
	Santa Ana		Philadelphia
5. Colorado	Denver		Pittsburgh
6. Connecticut	Hartford	27. Puerto Rico	Hato Rey
7. Florida	Jacksonville	28. South Carolina	Columbia
	Miami	29. South Dakota	Sioux Falls
8. Georgia	Atlanta	30. Tennessee	Nashville
9. Illinois	Chicago	31. Texas	Ft. Worth
	Springfield		Harlingen
10. Louisiana	Shreveport		Houston
11. Maine	Bangor		Lubbock
12. Maryland	Baltimore		San Antonio
13. Massachusetts	Boston	32. Utah	Salt Lake City
14. Michigan	Detroit	33. Virgin Islands	St. Croix
15. Minnesota	Minneapolis	34. Virginia	Richmond
16. Mississippi	Jackson	35. West Virginia	Charleston
17. Montana	Helena		Clarksburg
18. Nevada	Las Vegas	36. Wisconsin	Madison
	Reno		
19. New Jersey	Newark		
	Camden		
20. New Mexico	Albuquerque		

Attachment to Question 18a

NON-CREDIT PROGRAMS

(Dollars in Thousands)

	FY 2001		FY 2002		FY 2003		FY 2004		FY 2005		FY 2006	
	Total Program Costs	Line Item Appropri-ation	Total Program Costs	Line Item Appropri-ation	Total Program Costs	Line Item Appropri-ation	Total Program Costs	Line Item Appropri-ation	Total Program Costs	Line Item Appropri-ation	Total Program Costs	Line Item Budget Request
Capital Access												
International Trade/USEAC Program	$ 4,164	$ 3,100	$ 4,990	$ 3,100	$ 5,811	$ 0	$ 5,447	$ 1,484	$ 5,482	$ 1,464	$ 5,724	1/
New Market Venture Capital	716	30,000	5,152	N/A	12,626	N/A	472	N/A	376	N/A	381	N/A
PRIME Technical Assitance	15,146	15,000	4,740	5,000	4,558	4,967	5,105	4,948	5,093	4,933	N/A	N/A
Microloans Technical Assistance	21,489	20,260	18,533	17,754	15,127	14,902	16,039	14,842	15,232	13,813	N/A	N/A
Executive Direction												
Advocacy	6,961	1,300	7,780	1,100	8,680	1,093	9,360	1,089	8,697	1,085	9,128	1/
National Women's Business Council	909	750	1,154	750	917	745	953	743	952	740	993	750
Ombudsman	6,247	500	2,945	500	1,200	497	1,469	495	1,270	494	1,407	1/
Veterans Business Corporation	911	3,992	2,387	750	1,729	745	3,167	743	2,968	740	3,012	750
Gov Contr/Bus Development												
7(j) Program	7,323	3,600	4,534	3,600	2,803	1,490	4,626	1,979	2,995	1,480	3,672	1/
BusinessLinc	9,217	7,000	2,110	2,000	1,918	1,987	121	N/A	N/A	N/A	N/A	N/A
HUBZones Program	5,804	2,000	6,539	2,000	5,648	0	6,825	1,979	6,789	1,953	7,342	1/
Entrepreneurial Support												
Business Information Centers	11,622	500	12,419	500	9,309	472	9,952	396	N/A	N/A	N/A	N/A
Drug Free Workplace	3,500	3,500	2,773	3,000	1,941	1,987	1,025	989	1,023	986	1,035	1,000
Native American Outreach	N/A	N/A	310	N/A	2,536	1,987	4,440	1,979	2,507	987	2,525	1/
One Stop Capital Shops	6,938	3,100	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SCORE	12,431	3,750	13,271	5,000	11,284	4,967	17,209	4,948	18,831	4,933	19,048	5,000
Small Business Development Centers	99,843	88,013	100,150	90,010	92,760	88,421	103,541	88,063	106,511	87,811	106,910	88,000
Women's Business Ownership	20,944	12,000	17,450	12,000	16,653	12,419	21,670	12,369	22,945	12,333	22,636	12,000

1/ Request for funding included in operating budgets.
N/A = not applicable.

Comments for the Record

STATEMENT

by

The National Association of Development Companies

on

The Small Business Administration

504 Loan Guaranty Program Status & Proposed FY 2006 SBA Budget

Submitted to the

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

UNITED STATES SENATE

by

Mr. Christopher L. Crawford
President & CEO

February 17, 2005

The National Association of Development Companies (NADCO) is pleased to provide a statement to the Senate Committee on Small Business & Entrepreneurship on the SBA budget proposed by the Administration for FY 2006. NADCO is the trade association for SBA 504 Certified Development Companies (CDCs). We represent 250 CDCs and more than 200 affiliate members, who together provided more than 99% of all SBA 504 financing to small businesses during 2004. NADCO's mission is to serve as the key advocate for the 504 program, and to provide program technical support, marketing assistance, strategic planning, and professional education to our membership.

504's objective is economic development and specifically job creation by funding the expansion of successful, growing small businesses. No other Federal economic development program can claim to have created over 1,300,000 jobs, as the 504 program has done. 504 is a critical economic stimulus program designed to assist growing businesses create jobs and invest in their communities.

NADCO would like to thank Chairwomen Snowe, Ranking Member Kerry, and the entire Committee, for continued support of the 504 program. Your Committee has worked closely with the Congressional leadership, SBA, and our industry to ensure the availability of capital to small businesses through the 504 program through the years. We would especially like to thank the Chairman and Ranking Member for their strong support for many program enhancements through HR 4818 last year. It will bring the benefits of 504 to numerous small businesses that otherwise might not have had access to the program.

I would like to address three topics:

1. 504 authorization need for the remainder of FY 2005
2. SBA's proposed 504 authorization for FY 2006
3. 504 loan processing and liquidation issues.

504 FY 2005 Authorization:

The omnibus spending bill passed in December 2004, contained substantial 504 program enhancements long endorsed by this Committee. With support by both the Chairwomen and Ranking Member, Section K of that bill provided an authorization ceiling of $6.0 billion for FY 2005 and $7.5 billion for FY 2006. Our industry appreciates the Committee's support, as these program levels would have enabled 504 to add many more thousands of jobs to our economy.

However, other language in that bill placed a "hard cap" on 504 authority of $5 billion for FY 2005, which overrides the authorization ceiling passed by this Committee. With loan volume up by 24% year to date over last year, we believe that demand will exceed $5 billion. Furthermore, the increased debenture sizes and the new Manufacturing Debenture approved by Congress in December will certainly lead to even greater demand. We ask the Committee to carefully watch program usage and seek additional authorization for 504 if it proves necessary during the remainder of this year. Given the zero subsidy of 504, there is no cost to the taxpayer and no appropriation required for the program. If an increase is needed, 504 will add many more jobs this year. If authority runs out, we expect SBA to be forced to either shut 504 down during the year, or implement a credit rationing plan, as has been done to 7(a) in the past.

504 FY 2006 Authorization:

The Administration proposes a hard program cap of only $5.5 billion for 2006. If $5 billion proves to be insufficient for 2005, then $5.5 billion will be grossly insufficient for 2006. Demand by small businesses for 504 loan guarantees has grown by more than 20% per year over the past three years. With a statutory requirement to add or retain one job per $50,000 for 504 projects, this demand translates to more than 110,000 jobs added per year. All this is accomplished at zero subsidy. We believe that there is no Federal economic development program that is more effective in creating new jobs for America.

We ask this Committee to approve an authorization ceiling for FY 2006 of at least $6.5 billion. With the impact of last year's program enhancements and debenture increases yet to be measured, it is imperative that there be sufficient program authority to avoid running out of loan funding late in FY 2006. As with our potential predicament during 2005, this would lead to a shutdown of 504 during FY 2006 if the authorization were exhausted.

504 Centralized Loan Processing:

In an effort to both reduce operating costs to meet budgets, and improve 504 loan processing, SBA embarked last year on a pilot to bring all loan underwriting and approvals into one center in Sacramento. This was initiated when annual 504 demand was running at about $3 billion. The pilot was very successful, and we thank the Administration for its hard work to improve loan processing. This has resulted in a great improvement of service to small business borrowers.

However, today 504 demand is at least $5 billion, and will certainly exceed $6 billion next year with the endorsement of this Committee. This demand has put enormous pressure on the staff of the Loan Processing Center, with the result that the expected performance levels may be in jeopardy. I know of no more qualified and motivated Federal employees and managers than those in the SBA's Office of Financial Assistance and the Loan Processing Center. But these employees may be reaching their breaking point.

It appears that program demand may be outpacing SBA's ability to grow its processing capacity at existing staff levels. SBA and NADCO are working furiously together to streamline the center's workflows, and we think this will help improve capacity to a limited extent. But we believe that SBA must provide relief to those dedicated employees immediately by considering the need for staff increases. Otherwise, we foresee the inevitable outcome of staff burnout and sinking morale that will lead to turnover of these highly qualified individuals, resulting in lower service levels by SBA.

Through productivity improvements, SBA has been able to substantially downsize the labor required to both underwrite and process 504 loan applications. This has enabled SBA to shift its field office personnel to outreach and direct small business assistance tasks. Unfortunately, neither SBA nor NADCO foresaw the continued expansion of demand for 504, and SBA may have cut too deep in the capacity to handle future loan volume.

We urge the Administration to quickly evaluate the current and future staffing needs for 504 loan processing in order to maintain the high level of performance of this critical center well into the future. The result will be enhanced service to small business borrowers.

504 Loan Liquidation & Recovery:

504 is a loan guarantee program for which the primary operating cost is that of the losses on any defaulted loans. However, with all projected loan losses covered by fees paid by the small business borrower, our first mortgage lender, and by CDCs, the program operates at a "zero subsidy".

In order to keep these fees acceptably low, substantial efforts must be made by SBA to minimize the actual loss, or charge off, attributed to each defaulted loan.

Failure to improve the liquidation and recovery efforts for 504 defaulted loans will result in increased fees for all future 504 small business borrowers.

With every 504 loan being secured by both fixed assets (land, buildings, heavy equipment) and personal guarantees, it is expected (and actually forecasted by the OMB 504 subsidy model) that there will be a reasonable rate of recovery of any outstanding loan balance through either a workout with the borrower, or through liquidation of the loan collateral. For FY 2006, the forecast is for about 42% recovery on every default.

If the liquidation process fails, then the loan balance must be charged off, and there is a zero recovery for the project. In effect, the borrower walks away with no repayment of his debt, and the SBA must pay off the 504 debenture out of the guarantee fees that all other borrowers, our bank partners, and CDCs pay.

Alternatively, diligent workout or recovery efforts by SBA field staff may result in a partial or even a complete recovery of the outstanding loan balance from the borrower or guarantors. In fact, this occurs most of the time when recovery is actively pursued by SBA or qualified CDC recovery specialists, as detailed below.

Over the last several years, the actual number of 504 defaults has been very low for a Federal guarantee program. SBA's own forecast of defaults for FY 2006 is 5.95%. It is clear that defaults have been kept at very reasonable levels, even as demand increased substantially, or our economy sunk into recessions over the past eighteen years. This is a tribute to CDC and SBA loan underwriting and to continuing loan servicing to manage payments and collections.

However, it is another story when it comes to actual recoveries from these defaulted 504 loans. Shortly after 2000, SBA began a pilot to liquidate defaulted loans (disaster, 7a, and 504) through a series of "asset sales". These were apparently not very successful, and the Administration ceased these periodic sales of pools of loans. The last sale occurred in December 2002.

Since that time, SBA staff has been responsible for recovering proceeds on almost all 504 loan defaults through liquidations. Data from our program Trustee bank reveals that from 12/2002 through 12/2004, there have been just over eight hundred 504 debenture involuntary accelerations. We assume this to be the actual number of borrower loan defaults. Clearly, it is imperative that all these defaults be addressed by responsible SBA staff to maximize recoveries and avoid increasing the program guarantee fees charged to small businesses.

At about the same time that the asset sale process was abandoned, SBA initiated a project to centralize at least 7(a) loan liquidations and recoveries in a new center in Herndon, Virginia. It was also apparently decided to eliminate all "portfolio management" staff from all SBA District Offices, which resulted in a number of layoffs or forced retirements of PM employees. A small number of these PM staff were relocated to Herndon to build the new 7(a) liquidation center capacity. Any remaining staffs were assigned other tasks in the District Offices.

Unfortunately, and apparently lost in this transition, was the question of just who was responsible for handling the 504 loan defaults and liquidations. As NADCO and the Committee watched this process unfold, a pilot loan liquidation program for CDCs, created under direction of the Committee in the late 1990s, was demonstrating that CDCs, even though small community-based non-profits, were fully capable of successfully recovering outstanding funds from defaulting borrowers. Even today, about fifteen pilot CDCs continue to perform workouts and recoveries on their own loan defaults with a high level of recovery.

As the 7(a) liquidation center became a priority for SBA attention, it appears that 504 liquidation became a "catch as catch can" effort. Most of the 800+ loan defaults have apparently been returned to the various SBA District Offices for resolution and liquidation. However, it is not clear how many, or even whether any District Offices have remaining expertise or staff time to perform liquidations. We believe this capacity is sorely lacking today in most SBA offices due to downsizing of the field staff.

The result is that we don't know WHO is working these 800+ loan defaults, or what their actual recoveries are. We don't know how many have been simply charged off by the District Offices due to lack of expertise or staff time, leaving the defaulted borrower to walk away from his Federal obligation to repay his loan.

To avoid the certainty of substantial guarantee fee increases, the situation must be addressed quickly. With little real expertise remaining in SBA's field offices to recover 504 loan defaults, SBA must go in a direction it just did with the 7(a) program: centralize liquidation administration, and shift the actual field work of recoveries to the program's lenders: CDCs.

Throughout the last five years of the 504 liquidation pilot, we have been urging SBA to move in this direction. Now, with few or no remaining SBA PM field staff, it is imperative that this be done quickly. Eight hundred loans are sitting somewhere, with an unknown amount of effort by SBA to recover the outstanding balances. Further, as each year goes by, another four hundred loans default and must be dealt with. This uncertainty of collection must not continue.

We urge this Committee to work with SBA and with our industry to quickly reconfigure the process of liquidating 504 defaulted loans. We also urge SBA to issue for public comment its draft liquidation regulation as soon as possible. The alternative is that we will see recoveries decline, while borrower fees will go up. We stand ready to meet with the Committee and SBA management at any time to focus on addressing this critical issue.

Conclusion:

Through 504, SBA provides the largest and most successful dedicated economic development program the Federal government has today. Its real value to America is immeasurable. Through the jobs it creates and the business growth it fosters, 504 benefits employees, business owners, and government at all levels. Our borrowers pay Federal payroll and income taxes, State sales, payroll and income taxes, and local income and property taxes. All this takes place with no cost for the loan program to the U. S. taxpayer.

For this reason, we cannot understand why the Administration or the Congress would want to restrict access by growing small businesses to 504 for either FY 2005 or FY 2006. We urge Congress to ensure that the program is available to all businesses that need access to this long-term capital by increasing its no-cost authorization immediately.

To keep its fees low for borrowers, the process of liquidation and recovery of defaulted loans must be addressed quickly. We want to work with this Committee and SBA to meet their budgetary requirements, yet expand the recovery of loan balances. Given the number of outstanding loan defaults, there is no time to lose, and we urge quick action by the Administration to complete its regulations enabling CDCs to support the liquidation and recovery processes for 504.

NADCO thanks Chairwoman Snowe, Ranking Member Kerry, and Administrator Barreto for their long-standing support of 504. We look forward to a very successful 2006.

Contract Services Association
Excellence in Government Contracting

February 10, 2005

The Honorable Olympia Snowe
Chair
Committee on Small Business and Entrepreneurship
U.S. Senate
428A Russell Senate Office Building
Washington, D.C. 20510

Dear Madam Chairman:

On behalf of the members of the Contract Services Association (CSA), I respectfully request that the attached brief statement be inserted in the record for your hearing on February 17 on the Fiscal Year 2006 budget request of the Small Business Administration.

We appreciate the support we always have received from your staff on a variety of issues, particularly that of Max Kidalov, who is a talented and professional individual.

CSA is the nation's oldest and largest association of service contractors representing over 200 companies that provide a wide array of services to Federal, state, and local governments. CSA members represent the diversity of the Government services industry and include small businesses, 8(a)-certified companies, small disadvantaged businesses, women-owned, HubZone, Native American owned firms and global multi-billion dollar corporations.

Thank you for your consideration. I look forward to continuing to work with your committee.

Sincerely,

Chris Jahn

Chris Jahn
President

Contract Services Association
Excellence in Government Contracting

STATEMENT FOR THE RECORD
CONTRACT SERVICES ASSOCIATION OF AMERICA

Senate Small Business Committee

February 17, 2005

Madam Chairman, and Members of the Committee, the Contract Services Association of America (CSA) requests that this statement be included in the official record for your February 17 hearing on the Fiscal Year 2006 Budget for the Small Business Administration (SBA).

By way of introduction, CSA is the nation's oldest and largest association of service contractors representing over 200 companies that provide a wide array of services to Federal, state, and local governments. CSA members do over $40 billion in Government contracts annually and employ nearly 500,000 workers, with two-thirds of those employees being members of private sector employee unions. CSA members represent the diversity of the Government services industry and include small businesses, 8(a)-certified companies, small disadvantaged businesses, women-owned, HubZone, Native American owned firms and global multi-billion dollar corporations. CSA promotes Excellence in Contracting by offering significant professional development opportunities for government contractors and government employees, including the only program manager certification program for service contractors

Administrator Hector Barreto has successfully led the SBA in reaching new records of achievements in SBA's programs, and this also has been seen within the Office of Advocacy under the leadership of Tom Sullivan. These are two dynamic individuals who inspire us all to meet their high standards.

SBA provides valuable services through its several assistance programs focused on financial, technical, procurement (of particular value to our small business members), and disaster loan assistance, as well as general small business advocacy. It is because of the strong assistance programs offered by SBA, particularly on procurement and Government contracting issues, that CSA felt it was important to enter into a Strategic Alliance Memorandum with the SBA, which was signed in early November.

As Administrator Barreto said upon the signing of the agreement, "creating more contracting opportunities for small business is an important priority for President Bush and his Administration. I look forward to working closely with the CSA and member firms, with the goal of generating more contracting opportunities for small business."

Developing such a relationship with SBA was one of the top priorities for the association in 2004. More issues unite, rather than divide, companies within the Government service contracting industry – whether those companies are small, medium, or large. However, an adversarial relationship often develops that hinders the ability to work on acquisition policy and small business issues to the benefit of all.

For CSA, this strategic alliance will help achieve our mutual goal of improving participation of small businesses in Government contracting, and ensuring ready access to information and training programs. This alliance should facilitate improved opportunities for small businesses working with medium and larger sized businesses as well. This agreement will provide access to SBA, including its programs and policies for CSA members of all sizes. It provides an avenue for all CSA members to interact with SBA.

Another key goal of the Strategic Alliance Memorandum is to increase participation of CSA small business members in SBA's programs, including capital-access, training/management and technical assistance; procurement/8(a); HUBZone; Small Disadvantaged Business; international trade; and women-owned and veteran-owned business programs. The four page document outlines in detail how we both have agreed to coordinate our activities in these areas.

In particular, we can help achieve the goals for FY06, as outlined in the SBA's budget request, through coordinated business matchmaking programs. Also, training is a high priority for SBA – as it is for CSA. We offer a strong professional development curriculum of seminars and workshops, including the only Project Manager Certification Program specifically designed for service contractors. These courses are open to CSA members and non-members as well as Government personnel.

In conclusion, SBA has outlined several significant initiatives in order to continue its successful track record of assisting our Nation's small businesses. Through our Strategic Alliance Memorandum, CSA will do its part to help SBA meet the strategic goals outlined in its FY06 budget request.

Thank you for the opportunity to share this information with the Committee.

Strategic Alliance Memorandum

with the

U.S. Small Business Administration

and the

Contract Services Association of America

The Contract Services Association of America (CSA) is a non-profit trade association representing approximately 300 members of the government services contracting industry. CSA acts to foster the implementation of the federal government's policy of reliance on the private sector for the provision of support services and works to ensure that its members are involved in the development of federal procurement regulations that affect the service contracting industry.

The mission of the U.S. Small Business Administration (SBA) is to aid, counsel, assist and protect the interests of small businesses by providing them financial, contractual and business-development assistance, and advocating on their behalf within the Federal government. SBA administers its programs through district offices nationwide, and through resource partners including the Service Corps of Retired Executives (SCORE), Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), and Veterans' Business Outreach Centers (VBOCs). The SBA also provides additional services through the Office of International Trade and the U.S. Export Assistance Centers (USEACs) to small businesses interested in working internationally.

SBA and CSA (each a "Party" or, collectively "the Parties") enter into this Strategic Alliance Memorandum (SAM) to increase participation of CSA small business members in SBA's programs, including: capital-access; training/management and technical assistance; procurement/8(a); HUBZone; Small Disadvantaged Business (SDB); international trade; and women-owned and veteran-owned business programs. The SBA and CSA intend to focus on communications at national and local levels in order to meet the program objectives and goals set forth in this SAM.

The Parties acknowledge that specific training events, including but not limited to, seminars, forums, or initiatives contemplated by this SAM require further specific negotiations, a separate signed agreement and must be developed pursuant to SBA's cosponsorship authority (§8(b)(1)(A) of the Small Business Act). Nothing in this SAM permits CSA to use the SBA logo or seal. The SBA name shall be used only in a factual manner and shall not promote or endorse any products or services of any entity including but not limited to CSA.

Program Goals

The Parties will collaborate on the following program objectives and goals. SBA's participation is subject to the availability of appropriated funds.

<u>Capital Access</u>

GOAL: Increased awareness among CSA small business members & SBA lending programs.

- The Parties intend to work together to increase knowledge of SBA lending programs to the CSA small business member community.

- The SBA, through its district offices, may host "Meet-the-Lender" forums or general forums in CSA communities to provide information on SBA programs and invite the CSA and its membership to attend.
- The SBA will, upon request, provide information to CSA on SBA's loan programs.
- The SBA will, upon request, provide information to CSA on the Surety Bond Guarantee Program.
- The SBA will, upon request, provide information to CSA on SBA's Franchise Registry.

Training/Management & Technical Assistance

GOAL: Increased Awareness of SBA programs and services among CSA small business members.

- The Parties will promote local SBDCs, WBCs, VBOCs, SCORE and other SBA entrepreneurial development activities.
- The SBA will provide information on the 7(j) Management & Technical Assistance Program, which CSA may pass on to its members.

Procurement

GOAL: Increased participation of CSA small business members in SBA's procurement programs, and increased contract opportunities to CSA small business members.

- The Parties may share information on how to do business with the Federal government, including how to identify prime contracting and subcontracting procurement opportunities.
- The Parties intend to work together to increase the participation of CSA small business members in the 8(a) Business Development Program, the HUBZone Program, the SDB Program, women-owned small businesses, and service-disabled veteran small businesses.
- CSA will encourage its members to register in the Federal Government's Central Contractor Registry (www.ccr.gov) and SBA's Subcontracting Network ("Sub-Net"). SBA will provide CCR and Sub-Net orientation to CSA, upon request and subject to the availability of funds.
- SBA will provide CSA with a list of scheduled Business Matchmaking events (a cooperative agreement between SBA and the Hewlett-Packard Small Business Foundation) and will provide event information to local CSA members in cities where the event is held. CSA will disseminate this list of events to its membership and will encourage membership participation.

Women-Owned Businesses

GOAL: Increased participation of CSA women-owned small business members in SBA's programs and increased contract opportunities to CSA women-owned small business members.

- The Parties intend to share information and resources, as available, in such areas as access to capital, entrepreneurial skills, federal procurement opportunities, and the basics of starting a business to women entrepreneurs.
- SBA will provide information to CSA on Women's Business Ownership programs and services, including but not limited to the Women's Network for Entrepreneurial Training (WNET), WBCs, and the Online Women's Business Center.

Veteran-Owned Businesses

GOAL: Increased participation of CSA service-disabled and veteran owned small business members in SBA's programs and increased contract opportunities to CSA veteran-owned small business members.

- The Parties intend to share information and resources, as available in such areas as access to capital, entrepreneurial skills, federal procurement opportunities, and the basics of starting a business to CSA veteran entrepreneurs.
- SBA will provide information to CSA on Veterans Business Development Programs and services, including, but not limited to, the Office of Veterans Business Development, the Veterans Business Outreach Program Centers, and the Veterans Entrepreneurship Training Project.

Communications

The Parties will work together to increase knowledge among CSA membership about the programs and services SBA provides.

The Parties will exchange promotional and program materials. SBA will make materials available to CSA's headquarters and to its local members upon request and subject to availability of funds.

SBA will make this SAM available to all District Directors and encourage that each contact their respective local CSA members and begin discussions on mutually beneficial outreach activities, pursuant to the goals of this SAM and subject to legal authority to engage in such activities.

Upon request, SBA's local point of contact (POC) will provide the CSA local member POC with contact information for specific program offices in Headquarters.

Lists of CSA member organizations and SBA District Directors are available at www.csa-dc.org and www.sba.gov, respectively.

CSA staff and public information officers at SBA will coordinate media coverage of this SAM and reports to the public on the results of this collaboration.

Hyperlinks connecting the Parties' Internet home-pages will be installed where applicable, pursuant to SBA's linking policies and other relevant SBA policies.

Referrals and Nominations

CSA will encourage its local members to refer members to SBA resources (SCORE, SBDCs, VBOCs, USEACs and WBCs), visit local SBA resource centers, and recruit potential SCORE volunteers.

Where appropriate, CSA will make nominations for Small Business Week awards. SBA will provide CSA a link to the Small Business Week nominations website.

CSA is encouraged to nominate representatives to SBA district advisory councils as openings occur. SBA will advise CSA of openings.

Term and Authorization

The respective POCs for this SAM will be the Senior Vice President of Public Policy at CSA, Cathy Garman and the Senior Advisor for Government Contracting and Business Development at

SBA, Emily Murphy, or any other representative appointed by the SBA Administrator. The Parties will encourage regular contact between CSA local members and the directors of their respective SBA district offices. Representatives of both groups will be encouraged to meet, semiannually to plan specific activities described in this SAM and to review progress on mutual objectives.

The Authorizing Officials for the Parties hereto, which are the signatories for this SAM, are the President of CSA, Christopher L. Jahn and SBA's Administrator, Hector V. Barreto. The Authorizing Officials will, if necessary, recommend approval of this SAM to their respective organizations and direct specific actions under the terms of the SAM.

This SAM will take effect at the time of execution and will remain in effect through December 31, 2006.

This SAM does not itself authorize the expenditure of any funds. Accordingly, this SAM shall not be interpreted as creating any binding legal obligations between the Parties, nor shall it limit either Party from participating in similar activities or arrangement with other entities.

The Parties agree to consult each other on any amendments or issues to be addressed. The Parties may modify the SAM by written mutual consent. Either Party may terminate the SAM for any reason by giving 30 days advance written notice to the other Party.

The signatories of this SAM represent that they have the authority to make such commitments on behalf of their respective organizations.

Signed by:

Hector V. Barreto — NOV 2 2004

Hector V. Barreto
Administrator
U.S. Small Business Administration

Date

Christopher L. Jahn — 11/02/04

President
Contract Services Association of America

Date

ASSOCIATION OF
WOMEN'S BUSINESS CENTERS

STATEMENT
OF
THE ASSOCIATION OF WOMEN'S BUSINESS CENTERS

PREPARED BY

ELLEN GOLDEN
PAST CHAIR AND POLICY CO-CHAIR

AND

SENIOR VICE PRESIDENT, DEVELOPMENT
COASTAL ENTERPRISES, INC.

FEBRUARY 17, 2005

SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
HEARING ON THE PRESIDENT'S FISCAL YEAR 2006 BUDGET REQUEST
FOR THE SMALL BUSINESS ADMINISTRATION

Background: Association of Women's Business Centers

The Association of Women's Business Centers (AWBC) is a national not-for-profit organization representing women business owners and women's business centers. The AWBC was founded in 1998 to support entrepreneurial development among women as a way to achieve self-sufficiency, to create wealth and to expand participation in community economic development through educational, training, technical assistance, mentoring, development and financing opportunities. The vision of AWBC is a world where economic justice, wealth and well-being are realized through the collective leadership and power of successful entrepreneurial women. As an organizing force of women's business centers and women business owners, the mission of the AWBC is to develop and strengthen a global network of women's business centers to advance the growth and success of women business owners. The AWBC builds the capacity of women's business centers, develops public and private resources to support member centers and the women business owners that they serve, advocates on behalf of women's business centers and women business owners and otherwise promotes women's business development nationally and internationally.

History and Impact of the Women's Business Center Program

The Women's Business Center Program began as a demonstration program created by Congress in 1988 as a response to women's organizations that presented evidence to Congress that women continued to face discrimination in starting and running small businesses. A leveraged federal investment in women's economic development, the Women's Business Center Program quickly demonstrated its value and has enjoyed consistent, widespread, bi-partisan support from Congress. The Program has grown from four to 104 Centers.

In July 2004, the National Women's Business Council (NWBC) issued a report entitled Analyzing the Economic Impact of the Women's Business Center Program. An independent research firm was retained to analyze data from 2001, 2002, and 2003. They relied primarily on data furnished by the SBA Office of Women's Business Ownership and looked at internal and external factors in trying to assess impact. The research uncovered phenomenal growth in activity and impact. The number of clients served nearly doubled during the study period to an astounding 134,136. By any measure, the WBC is cost effective. In FY2003, the program's appropriation was $12.5 million. Even taking match requirements into account, the average cost per client is just under $200. Equally impressive are the economic impacts. According to the report, the WBCs generated a total economic impact of nearly $500 million in gross receipts with profits of $51.4 million. The WBCs also created 12,719 new jobs and started 6,660 new firms.

Historically, the women served by the Centers have been diverse and included minorities, low-income women, women with disabilities, and veterans. The data available revealed that roughly half of the women served were minorities, a percentage that is far greater than their representation in the overall population or among women business owners. During the period covered by the report, there was also growth in the numbers of home-based businesses, clients receiving TANF, women with disabilities and veterans that were served. The WBCs are mandated to serve socially and economically disadvantaged women. The findings from this report suggest that the WBCs are more than meeting their mandate.

The WBCs also serve women at all stages of business development, in all sectors and in different sizes from microenterprises to businesses employing more than 50. According to the NWBC report, the types of businesses served by the WBCs generally mirror the national data on the distribution of women-owned businesses. The majority are in services, followed by retail. However, the report also revealed that the numbers of women business owners in non-traditional sectors, such as manufacturing and construction, being served by the WBCs is growing.

The report also revealed that the WBCs have clearly established a market that is distinct from that served by other business assistance organizations. In doing their analysis, the researchers looked to see if the presence of a Small Business Development Center (SBDC) or a Procurement Technical Assistance Center (PTAC) made a difference to the success of the WBCs. No significant difference was found, indicating that the WBCs are serving a need and a population that would otherwise not be served.

There is no doubt that the investment of public funds in the Women's Business Center Program has generated a significant return that has benefited the country in general. One way to understand this is to look at the level of appropriations relative to the level of activity. In 1995, Congress appropriated $4 million for the program, and in 2003, there was an appropriation of $12.5 million, an increase of 312 percent. During that same period, however, the number of clients served increased more than 1600 percent, from 8000 in 1995 to over 134,000 in 2003. That the services delivered to clients leads to income, employment and, of course, ultimately tax revenues has been discussed.

The structure of the Women's Business Center Program has also changed as it has grown. The Program was initially conceived as a demonstration with three-year funding and an expectation that Centers would graduate to other funding. In 1997, the Program was made permanent and funding was extended to cover a five-year period. In 1999, with the overwhelming support of Congress, the Program was changed again to incorporate a sustainability pilot program that allowed Centers to apply on a competitive basis for an additional five years of funding.

The creation of the Sustainability Pilot Program is the result of the recognition of several important points. The first is the importance of the Women's Business Centers in providing essential services to a significant and growing market of women who want to be business owners and who also want to be part of a program targeted to women. Secondly, it acknowledged the importance of the SBA's role as a funder. Not only does the SBA contribution provide an important foundation from which Centers can build, but the SBA brings credibility to the work of the Centers and its funding serves as a catalyst for raising the necessary matching funds. Finally, it acknowledges the value of the investment made in the existing Centers and the need to sustain the infrastructure so painstakingly constructed over the life of the program.

The Sustainability Centers have demonstrated their capacity to deliver the program in conformance with the program's goals and purposes. That means more than just delivering technical assistance and training; it also means that they have developed the skills and expertise of their staff, that they have established solid reputations in their communities and that they have developed the relationships and partnerships needed to sustain their organizations over a long period of time. The importance of experience and longevity to a Center's capacity and the likelihood of achieving significant economic impacts were also addressed in the NWBC report. The researchers found a strong correlation between success and the length of operation of a Center. In these times of fiscal restraint, it is more important than ever to make each dollar invested count. Both common sense and the NWBC research point to the same conclusion: investing in the infrastructure of the WBC program, including those Centers with proven track records and experience is an investment that is worth preserving.

Background: Coastal Enterprises, Inc.

Coastal Enterprises, Inc. (CEI) is a private non-profit, 501(c) 3, community development corporation and community development finance institution headquartered in Wiscasset, Maine which provides financing and technical assistance in the development of small businesses, social services and affordable housing. CEI development finance activities are targeted to promising sectors, such as manufacturing, value-added natural resource industries, women business owners, microenterprises, select social services (e.g., child care), environmental technologies and others. In addition, CEI engages in the development of affordable and special needs housing, policy research and advocacy. In addition to being a Women's Business Center under the SBA Office of Women's Business Ownership, CEI is an intermediary under the SBA Microloan Program, a licensed SBA 504 local development corporation, a sub-center under the SBA Small Business Development Center program, and a New Markets Venture Capital program.

Incorporated in 1977, CEI manages a pool of $247 million in capital in hand or committed raised from a variety of public and private sources. CEI funds have leveraged over $500 million in financing for over 1500 small businesses that have created and retained 16,000 jobs. CEI also provides business assistance and training to 1,500 aspiring and existing entrepreneurs each year. In each of its projects, CEI targets social and economic opportunities to low-income people, including welfare recipients and individuals with disabilities. CEI provides a continuum of business finance and support to customers ranging from self employed individuals with limited resources to manufacturing enterprises that employ 100 or more people.

CEI has worked with women business owners since 1980, initially in the context of farm-based enterprises and ultimately encompassing the full-range of women-owned enterprises. In 1985 CEI initiated a Women's Small Business Project to focus finance and technical assistance services to women; that was followed by a Child Care Development Project and self-employment projects targeted to AFDC recipients, refugees, unemployed and economically disadvantaged. CEI has provided $33 million in financing to 726 businesses partly or wholly owned by women and provided training and technical assistance to approximately 12,500 aspiring or existing women business owners.

CEI Experience with the Women's Business Center Program

CEI was funded by the SBA's Office of Women's Business Ownership under the Women's Business Center Program in 1995 as a new center and in 2000 as a Sustainability Center. Since that time over 4000 women have benefited from one-one business counseling, training, workshops, seminars, peer groups, information and referral and other program activities.

CEI's customers range from women who are contemplating starting a business to women who have been in business for over twenty years; from low-income women struggling to become economically self-sufficient to women who are interested in enhancing their profitability and creating good jobs for other women; from home-based service businesses to manufacturing operations; from traditional crafts to technology-based enterprises. They are brought together by their desire to build their management skills and the importance that they place on being part of a program that is targeted to women.

CEI's approach is characterized by innovation, flexibility and interaction. Innovation comes from working closely with customers to develop services for existing women business owners, such as peer groups and Advisory Boards and developing services, such as training and technical assistance in uses of the Internet and E-commerce, to help women business owners remain competitive in the 21st Century. Flexibility is evidenced by a willingness to design programs specifically to meet the needs of marginal business owners clustered in rural communities or to design a three-part, nine-hour start-up training for low-income women to fill a gap in the range of business assistance services available in Maine or to provide technical assistance on-site at a business. Interaction comes from limiting the size of workshops and training sessions to maximize interaction and facilitate peer support and networking.

In sum, CEI has developed its Women's Business Center in the context of the Maine economy, building on its experience-based understanding of the needs of women business owners and the explicit need for targeted services for women business owners in Maine. In short, CEI's Center is customer-driven and provides innovative services that fill unmet needs and complement Maine's other technical assistance services.

The following profiles illustrate just a few of the ways that the Women's Business Center benefits women business owners in Maine:

> *Mary and her husband Henry own a dairy farm in rural Maine. The fifth generation of farmers in the family, they realized that they could not support themselves and their three children with dairy farming alone. They decided that diversifying their operation was their only option. Mary approached the Women's Business Center at CEI for help. Now two years later, after working one-on-one with a business counselor on planning, marketing and financial management and participating in a peer support group, Mary and her family have transformed their farm. There are new products: hormone and antibiotic free chickens, beef and veal animals, pigs and laying hens; and there are new markets: up-scale restaurants and individual consumers. The new plan has had the added benefit of involving Mary's sons and a nephew in the operation, hopefully, laying the groundwork for a transition when Mary and her husband are ready to retire. Not only is this family now fully supporting itself with the farm, but also they have built a new barn and improved the dairy barn and the manure and drainage systems. In addition, the local high school vocational class built a small shed to house the retail meat operation. They are poised for continued success.*
>
> *Jennifer owns a small store and gas station in rural Maine. After 17 years in operation, family illness nearly drove her out of business. Cash flow problems left her with virtually no inventory and most of her vendors had stopped supplying her. Rather than take the advice of those urging her to file for bankruptcy, she*

approached the Women's Business Center for support. With the help of her business counselor, she prepared an excellent business plan and used it to attract investors. Two members of her community responded to her plan and invested a total of $75,000, one is just an investor; the other wants to be a working partner and eventually purchase the store. Thanks to her investors, Jennifer has paid off old debt, renegotiated with her vendors, restocked the store and drawn her customers back. Sales have increased dramatically, and are approaching the level they were at before the financial problems began. She narrowly avoided total financial disaster, and now has a plan for on-going recovery. She continues to work with her business counselor on her accounting system and developing the skills to assess the profitability of each department of her store. In addition, they are working on ways to structure the new infusions of capital to best meet the needs of the business and the investors.

Role of the Women's Business Center in Maine

CEI is a statewide organization and provides services to women business owners throughout the state. Maine's population is predominantly rural; less than a dozen communities have populations greater than 20,000 and the largest urban area has only 65,000 people. Maine is a poor state, with sharp regional disparities: there are pockets of poverty where rates approach 20 percent and unemployment is as high as 12 percent. Overall, the growth in the economy trails that of the nation and the region, and per capita income consistently lags behind those for the rest of the region and the country. Approximately thirty-four percent of Maine's businesses are women-owned.

Although the number of women business owners has risen steadily and dramatically for the past two decades, many women are still not taken seriously as business owners and their businesses are not valued. While business is technically no longer a non-traditional occupation for women, women business owners are still a minority and relatively inexperienced. They face significant challenges: isolation and a lack of confidence, assets, formal business training, credibility, and effective networks. Even established women business owners are not immune from these issues. The barriers that women have experienced in the labor market haunt them as business owners: lower earnings, fewer opportunities for advancement and occupational segregation.

A survey of Maine women business owners conducted by CEI in 2001 supports this assessment and points to the need for focused assistance. The median size of women-owned business in Maine was 2 employees and sales of $100,000, yet 56 percent depended on their businesses for 50 percent or more of their family income, with 24 percent depending wholly on their businesses for household income. Seventy-nine percent reported seeking business advice, and 54 percent identified areas where they would like additional assistance. The majority started their businesses with modest amounts of capital (the median was $20,000). While nearly half reported obtaining bank financing as part of their start-up capital, the percentage of those receiving bank financing declined over time. In other words, the more recently a business started, the less likely it was to receive bank financing.

For nearly two decades, CEI has provided targeted assistance to women business owners shaped by a deep understanding of the issues they face. The continuing demand for these services confirms their importance; the positive evaluations gathered from customers confirm the quality of these services. The funding from the Women's Business Center program has supported and enhanced CEI's capacity to develop its program further and to define its niche more clearly. CEI's Women's Business Center offers a unique combination of skills and experience to Maine's women business owners: a focus on women; a demonstrated understanding of the relationship between women's personal and business lives and the impact of personal issues on business decisions; innovation in program design; business expertise; and a supportive environment that fosters sound learning.

Responses to the President's FY2006 Budget request for the SBA:

In their brief history, the Women's Business Centers have become a key SBA Resource Partner. They have been acknowledged as an integral component of the SBA's primary infrastructure, being highly effective and having established a well-developed infrastructure

The following recommendations and comments are designed to support and sustain the Women's Business Development Centers, affirming their demonstrated effectiveness as an essential source of assistance for women business owners and their role as a key element of the SBA's infrastructure.

1. <u>Appropriations</u>

The President's budget recommends that the Women's Business Center program be funded at $12 million in FY2006. We appreciate the fact that the program was included in the President's budget even as many other programs with demonstrated impact, such as the SBA Microloan Program, were recommended to be eliminated. Nonetheless, we are deeply concerned about the proposed level of funding and its effect on the program.

The program has been funded at the same level for the past four years. Flat funding has meant a reduction in funding for individual Centers. Quite apart from the effect of inflation and increasing costs of operation, new Centers have been added to the program, putting further pressure on available resources. The result has been significant and detrimental reduction in funding for individual centers. The AWBC is requesting that funds be appropriated consistent with authorized levels: $16.5 million. This is the level of funding needed in order to meet current commitments and to continue to grow the program to meet unmet demand in areas currently not served by the program.

Even in times of fiscal restraint, we feel able to request full funding, because of the documented impact of the program. Funding for the Women's Business Centers is an investment in the country's small business economy. The returns are the businesses started, strengthened and expanded, the jobs sustained and created, and the income generated by the growing number of women owned businesses served by the program. As noted above, the National Women's Business Council issued a report in July 2004 entitled: Analyzing the Economic Impact of the Women's Business Center Program. The research drew on data from the SBA's Office of Women's Business Ownership from 2001, 2002, and 2003. Among other things, the reported revealed that the WBCs generated a substantial economic impact. In 2003 alone, the WBCs generated $407 million in gross receipts, started 3,578 new businesses and created 6,493 new jobs. By any measure, this is a significant return on investment. The report also noted the long lead-time needed to develop a small business. In other words, we can look forward to even greater returns in the future from dollars invested to date.

2. Sustainability

In 1999 Congress overwhelmingly supported the creation of Sustainability Centers, e.g., enabling those Centers who had completed their first five years of funding to apply for renewal grants. Under the initial legislation, a funding allocation was established that was designed to ensure that appropriations would be distributed equitably among new, current and sustainability centers. The percentages were held constant over time while the authorization levels increased modestly to accommodate program growth.

Unfortunately, as noted above, the level of funding has not increased, while the number of Centers eligible for sustainability has grown. The combination of the funding formula and flat funding, individual sustainability centers experienced budget cuts of between 57 and 62 percent this year. Some centers were compelled to close; others reduced staff and struggled to cut expenses. Regardless of the decisions that were made, the impact was a loss of skilled professional capacity and a reduction of services.

Why do we care so much about sustainability? In order to be funded as a Sustainability Center, a WBC has to have demonstrated its capacity to perform and its ability to meet the program's goals. The NWBC reported cited above also found that years in operation were highly correlated with success. In other words, the greatest return on investment is most likely to come from those Centers with the most experience. Further, positive economic impacts were generated through the efforts of Centers to respond effectively to the needs of their local markets and their targeted populations. As the report noted, this is a hallmark of program sophistication and integration, and a function of experience. Particularly in times of fiscal restraint, it is essential that the return on public investment be maximized. Clearly, support for the Sustainability Centers is one way to achieve this.

In addition to the level of funds appropriated to the WBC program, there are several other issues that will have an impact on the Sustainability Centers. One is the funding formula. In allocating FY2004 funds, only 30.2 percent of funds were awarded to Sustainability Centers, resulting in the reduction of services noted above. In the FY2005 appropriations bill, Congress directed the SBA to allocate 48 percent to Sustainability Centers, an amount that more appropriately relates to the proportion of Sustainability Centers in the overall program.

A second issue relates to the reauthorization of the Women's Business Center program. In the last Congress, legislation was passed in the Senate that would have created the opportunity for WBCs to apply for funding on a five-year cycle subject to performance. On the House side, there was legislation, which unfortunately did not pass, that included a provision for renewable funding. For all the reasons noted above, it is critical that this issue be addressed to provide a sound framework for the program going forward.

In the past, the SBA has expressed a preference for funding new Women's Business Centers as a strategy to encourage innovation and to ensure Women's Business Center services in currently underserved markets. The AWBC has always supported the establishment of new Centers and shares a vision of having a Women's Business Center within reasonable proximity of every woman who wants access to these services. However, for all the reasons cited in this testimony, we do not support the establishment of new Centers at the expense of those who have demonstrated a capacity to deliver the program. It is important that we invest in what has been built and continue to strengthen what has already been tested and proven to be effective.

3. <u>Performance Criteria</u>

The AWBC has long supported the development of performance criteria for the Women's Business Center Program with the goal of ensuring the delivery of the highest quality services possible. As previously noted, the AWBC has as one of its primary purposes building the capacity of the WBCs which is does through the delivery of training and technical assistance, the facilitation of mentoring relationships and the development of resources to support the work of the WBCs.

This past year, the SBA developed performance criteria for the WBCs, which have been shared with the Committee on Small Business. These criteria were used to determine levels of funding for the Sustainability Centers in allocating the FY2004 appropriation. Each Sustainability Center was graded on each criterion on a scale of 1-3 and the total score was used to slot the Center into one of three levels of funding. In order to understand how the criteria were applied so that it can support those Centers interested in improving their rankings, the AWBC has asked for information about the standards used in applying the criteria to the Centers. Unfortunately, the SBA has not been forthcoming with information about the standards that they used in determining their scores. Going forward, the AWBC hopes that the SBA will share this information so that we can continue to work together to build on the accomplishments of the program and achieve even higher levels of impact.

Statement by Ranking Member John Kerry
Senate Committee on Small Business & Entrepreneurship
Hearing on the SBA's FY2006 Budget
February 17, 2005

Good morning. Thank you Chairman Snowe for calling this hearing today. I welcome our witnesses and thank them for being here today. I also want to thank those who have submitted letters and written testimony for the record. All of the information is important to helping us make sure small businesses are getting the support they need. Thank you all.

Today is the beginning of our deliberation over the SBA's FY2006 Budget. As a member of this Committee, I have spent years working to support the start-up and growth of small businesses, and I simply do not agree that this is a budget "to be proud of," as Administrator Barreto told the House Committee on Small Business last week. I understand that the SBA and its programs are not perfect. However, starving the programs that provide credit and counseling to our small businesses, the job-creators of this country, is not a good plan. For five years now, the SBA has developed the habit of creating problems and then exploiting them to justify proposals that end up hurting small businesses, such as zero funding for loan programs or broad workforce cuts. President Bush has cut the SBA more than any other Agency. When he was handed the reins, the Agency had about $1 billion in funding, and today the President proposes less than $600 million. Morale at the Agency is low, and the Agency has had repeated problems getting a clean audit.

The Administration tries to obscure the true picture and instead paints a rosy scenario. For example, they use optimistic sound-bites about "doing more with less" and "saving taxpayer money." The SBA has omitted a key aspect to their "zero funding for loans" plan: that is that they've shifted the cost to borrowers and lenders through higher fees, and that those higher fees will put loans out of reach for the neediest of small-business borrowers. Most of us in this room know that the SBA is taking credit for successes that were realized in spite of the Administration's actions and not because of them.

The President's rhetoric on small business doesn't square with this crippling budget proposal. Over the last four years, President Bush has cut the SBA's budget by more than one third, leaving our entrepreneurs struggling for access to credit, federal contracts, and adequate training.

Why has the SBA been able to back more small-business loans? There are several reasons. In the 7(a) Loan Guarantee Program, it is because Congress and the small-business community of borrowers and lenders have come together every year, to rescue the SBA for the sake of small businesses, to pass legislation that reduces the cost of the program, leveraging more loan dollars, and to raise money through fee increases to compensate for the lack of funding provided by the Administration. In the 504 Loan Guarantee Program, aside from natural growth in demand, it is because the Congress has supported bigger program levels and because of the increased number of 504 deals that came from the 7(a) Loan Guarantee Program when the SBA had imposed loan caps, eliminated combination loans, or completely shut down the 7(a) loan program. Madam Chair, it is important that the record document what the appropriators refer to as the Administration's "funding schemes" each year, and how those hurt the long term operation of the 7(a) loan program rather than caused record lending. I submit a letter for the record that I sent to the Senate Appropriators a couple of years ago, which details the situation through FY2004 leading up to last year's shutdown of the 7(a) loan program.

In general for the lending programs, I don't think the proposed program levels give us a safety net for more lending. To avoid a shut down like we had last year in the 7(a) program, or other types of credit rationing to stretch dollars, I support increasing the proposed program levels to the full amount allowed by law. That is $17 billion, as passed by the Congress just last December. For the 504 program, I support a higher level of $6.5 billion, as the industry forecasts it will need. In addition, I call upon the SBA to allocate more resources to processing loans in Sacramento because demand is up 24 percent, and finally to issue regulations regarding 504 liquidations that are years behind the schedule. I disagree with the proposals to eliminate the SBA's microloan program and the SBIC participating securities program. They each serve a financing gap in the market left by traditional lenders and venture capitalists.

In the microloan program, in all these years since its inception in 1992, there have only been one or two defaults. It creates jobs at the bargain rate of less than $4,000 versus the $33,000 of the SBA's other programs and meets the SBA's goal of serving more "start-ups." The 7(a) Community Express program, while a good program for certain, more-established small businesses, is not a substitute for the SBA's microloan program.

In the SBIC program, there are indeed problems. For five years, the SBA has been asleep at the wheel, and now there are billions in losses. Despite requests from this committee and the SBIC industry to work together to develop a solution that would keep this venture capital available to our fastest-growing small businesses, in this budget, the SBA proposes throwing in the towel and doing away with a very successful source of equity capital. Folks, we need the SBA's investments. If we don't take the risk, then the country will not continue to benefit from companies like California Pizza Kitchen and Coinstar, which are paying dividends of millions in taxes and thousands of jobs.

Of major concern to me is this budget's request to grant the SBA authority to charge a fee for 7(a) loans sold on the secondary market. While we all agree that fiscal soundness is important, this proposed fee seems unnecessary and tantamount to double-booking the small business lenders and borrowers. The 7(a) secondary market fund has never run out of money, and it is only a possibility that there will even be a problem. If there is one, it won't even happen until 2018, 13 years from now, according to information we were given last year. There are other ways to address this potential problem than giving unlimited authority to the SBA to impose any fee it wishes. Further, the accounting model the SBA uses for the general 7(a) loan program is still not accurate. As anyone who has followed this program can tell you, inaccurate subsidy rates are not a new problem. In the Fiscal Year 2006 budget, we learned that despite the highly touted "econometric model," the subsidy rate for the year that just ended was wrong by 70 percent, wasting $42 million in appropriations and charging borrowers and lenders fees that weren't even needed. It is a black mark on the Agency and its ability to project the true cost of its biggest and most far-reaching loan program.

Regarding this budget proposal, I continue to be bothered by the Agency's rhetoric and policy justifications that pit its programs against each other, 7(a) against 504, 7(a) Community Express Loans against Microloans, and PRIME and Microloan Technical Assistance against Women's Business Centers, SCORE, and the Small Business Development Centers. These programs serve different types of small businesses and different, but worthy purposes, but the budget does not recognize this fact.

In addition, Madam Chair, the President's fiscal year 2006 budget request, like his fiscal year 2005 proposal, continues the Administration's assault on programs that help low-income, minority, home-based, rural and women entrepreneurs. If Congress accepts the President's fiscal year 2006 budget proposal for the Small Business Administration, entrepreneurial development assistance for those who need it most will be decimated.

This year, the President eliminates the Program for Investment in Microentrepreneurs (PRIME), does away with sustainability centers in the Women's Business Center program, cuts $1 million from the Small Business Development Center (SBDC) program, reduces Native American Outreach assistance by 20 percent, and again provides no funding for the Business Information Centers (BICs), the SBIR Rural Outreach Program (ROP) and the SBIR Federal and State Technology (FAST) program. All of these programs are designed to provide targeted, expert, and unique assistance to sectors of the small-business community that have few, if any, other resources. Eliminating these programs, along with the Microloan program as mentioned above, will drastically undermine new business startups, cripple long-term micro-enterprise development, and undermine the ability of states and local communities to grow their economies.

The most critical cuts to entrepreneurial development programs at the SBA proposed by the President are to the PRIME program, to the Women's Business Center (WBC) program, and to Native American Outreach.

In commenting on the importance of micro-enterprise development, SBA Administrator Hector Barreto himself has said, "The PRIME program was created to help the smallest of small businesses. These are entrepreneurs at the most basic stage of starting a business and who typically require the greatest amount of committed service and guidance. In order to succeed, they require training and technical assistance that must be accessible."

Unlike any other SBA program, the PRIME program provides highly in-depth and intensive, one-on-one business counseling and training. The Small Business Development Center program defines a "client" as someone who has received two hours of training. The PRIME program is targeted to help very low-income families, defined as those at 150 percent of the poverty line or below. A very low-income family of four earns about $23,000 a year. The International Labor Organization estimates that the return on investment in micro-enterprise development (through programs such as PRIME and the Women's Business Centers) ranges from $2.06 to $2.72 for every dollar invested. Micro-enterprise contributes to our national economy through public tax revenues, private income increases, and reduced dependence on public assistance, such as TANF.

Last year the SBA awarded PRIME grants to only 16 states and the District of Columbia, despite receiving the same amount of funding for the program from Congress. Now, instead of 66 centers nationwide, there are only 27. With the poverty rate continuing to increase, the need for PRIME assistance is now greater than ever. While access to credit is vital to microentrepreneurs, for low-income individuals, there is often a severe gap between their current experience and being credit-worthy. Receiving PRIME technical assistance can fill that gap and help them become successful in business. Despite this overwhelming need, the President, for the fifth year in a row, has eliminated PRIME from his budget.

Also in need of urgent attention is the Women's Business Center program. The Administration has repeatedly said that it will not support the most experienced, the most effective, and the most efficient Women's Business Centers. On this issue as well, the Administration continues to be on the wrong side of entrepreneurial development, on the wrong side of small businesses, and on the wrong side of women. This is a program that helped 106,000 women entrepreneurs last year alone. Despite repeated success and improvement, President Bush has proposed near flat funding for the program each year of his Administration. This year his $12 million request is $500,000 less than the program received for fiscal year 2005.

A critical part of the WBC program -- sustainability grants, which allow the most experienced and productive centers to continue receiving funding -- was authorized as a pilot program that was set to expire in September 2003. That program was written by me, cosponsored by a bipartisan group of 30 Senators, including Senator Snowe, and passed in 1999. Repeated requests from the women's business community and strong support from some leaders on the Hill -- such as Chair Snowe, Congresswoman Nancy Johnson, the Senate appropriators, and Senate Democrats -- have kept the sustainability program going. Last year, at the request of Senator Snowe and myself, the Senate appropriators gave 48 percent of the programs funding to the sustainability program. However -- because the program was not reauthorized as part of the last-minute SBA reauthorization that was included in the end-of-the-year Omnibus Appropriations bill -- sustainability is only funded through fiscal year 2005.

The SBA has testified that the agency is more interested in opening new, inexperienced centers than continuing those experienced centers that have made up the foundation of the program for 16 years. Last year, the SBA underfunded the 49 WBCs that receive sustainability grants. Instead of providing full funding at $125,000, the SBA made grants ranging from $70,000 to $81,000. This has forced centers to cut back on staff, decrease assistance, and close their doors altogether. The Women's Business Centers in sustainability already represent 39 states and territories. In fiscal year 2006, about 60 percent of the Women's Business Centers will be in sustainability, and will be forced to close if the President's proposals are followed.

Opening new centers – which on average take two to three years to get up to speed -- instead of fully funding performing and proficient Women's Business Centers is bad policy, bad for women, and bad for the economy. Last year, Senator Snowe and I passed legislation through the full Senate that would have secured the Women's Business Center for the long-term. I was extremely disappointed that this legislation was not included in the SBA's mini-reauthorization developed in the waning hours of the 108th Congress by Chair Snowe, Chairman Manzullo and Republican leadership; however, I am optimistic that Chair Snowe and I will again work together to address this critical issue. Chair Snowe has been a leader on this issue and I commend her for that. I look forward to working further with her, my colleagues on the House side, and the Administration to find a workable solution to this issue.

The Administration is also cutting Native American Outreach, a program the President has proposed eliminating altogether for the last two years. This is the only SBA program tailored to meet the needs of the Native American community. According to a report released by the U.S. Census Bureau, the "three year average poverty rate for American Indians and Alaska Natives [from 1998-2000] was 25.9 percent higher than for any other race groups." With unemployment as high as 70 percent and poverty rates well above the national average, Native American communities need a commitment from the Federal government that we will help. For the past two years, Congress did not adopt the ill-advised proposals of the Administration for Native American assistance at the SBA and instead appropriated $2 million and $1 million, respectively, for the last two years. The SBA, however, failed to establish a definitive, continuing Native American program with these funds.

Over the past several years, I have worked closely with my colleagues in Congress to fund Native American support programs at the SBA. Last year, Senator Snowe and I included the Native American Small Business Development program in the SBA Reauthorization bill. This legislation, which was reintroduced by Senators Johnson, Smith, and me last Congress, would ensure that the SBA's programs to assist Native American communities cannot be dissolved by making the SBA's Office of Native American Affairs (ONAA) and its Assistant Administrator permanent. Our legislation, which we plan to reintroduce this Congress, would also create a statutory grant program, known as the Native American Development grant program, to assist Native Americans to start and grow small businesses.

Madam Chair, I am deeply concerned with the Administration's ongoing strategy that limits transparency and reduces the oversight authority of this Committee by removing program funding from a line-item in the budget and incorporating them into larger operating budgets of managing offices. The FY2006 budget rolls funding for the 8(a) program, HUBZone program, 7(j) program, Native American Outreach, and U.S. Export Assistance Centers into the budget of the Government Contracting and Business Development (GCBD) office, Salaries & Expenses or Agencywide Costs. The removal from a line-item reduces the authority of this committee to ensure that the funds allocated to a specific program are applied to that program in an appropriate manner. Instead, once incorporated into the Government Contracting and Business Development budget, those funds may be used at the discretion of the Associate Administrator of that department.

In general, I do not think the Committee should support the proposal to eliminate line-item funding, but particularly not for services and offices that exist to level the playing the field for minorities, foster entrepreneurship among the under-served, and serve as an independent voice for small-business owners. Line-items ensure, to the extent possible, that the government obligate funds for a purpose that we, the oversight committee, and the Congress, think are important. These conclusions are often reached after deliberations like we are having here today, where the public tells us what works and what doesn't and why a program is needed. Over the past few years, the Agency has not listened to the very people who deliver its programs: small business groups and Agency partners. In some cases, SBA has punished its partners by delaying disbursements or cutting funding, and the Agency has been less than cooperative with its Committees of Oversight, often ignoring or delaying even the simplest of oversight requests. Short of extremes like subpoenas, line items are one of the few effective oversight tools Congress can use with the Executive Branch. Eliminating them will set a bad precedent.

Even more disturbing is the transfer of research dollars from the jurisdiction of the Chief Counsel for the Office of Advocacy to the account for Executive Direction. Advocacy Research is responsible for impartial reports that address the economic impact on small firms caused by Federal regulations and actions. Independence from political influence is essential for ensuring accurate and impartial reporting. One such recent report found that 44 firms were incorrectly reported as small and received over $2 billion in Federal contracts. I have grave concerns regarding the ability of the Office of Advocacy to perform such research without full independence. With the funds being absorbed by the Administrator's budget, the research of the Office of Advocacy will lose independence and would now be conducted at the discretion of the Administrator.

This transfer of funds is a prime example of the need for an Independent Office of Advocacy bill, which the Chair and I cosponsored in the 108th Congress. This bill will allow the Office of Advocacy to better represent small business interests before Congress, Federal agencies, and the Federal Government without fear of reprisal for disagreeing with the position of any current Administration. I believe this attempt to gain control over the research conducted by the Office of Advocacy increases the urgency to pass this legislation. I look forward to receiving the commitment of the Chair in redoubling our efforts to get this legislation passed as soon as possible in the 109th Congress.

What this budget also doesn't adequately address is what every small business wants to know: How are we going to fix the health care crisis in this country for small businesses? Instead, President Bush's budget request recycles many unpopular proposals from years past, including his desire to create Association Health Plans for small businesses. I'm known as an environmentalist, but some things just aren't meant to be recycled. I remain strongly opposed to AHPs, and I believe that they will do little to help small businesses find the relief they so desperately deserve. In fact, the Congressional Budget Office has shown that many small businesses will actually be harmed if AHPs are enacted, as they estimate that premiums will likely go up for four out of five small business workers and their families. Because AHPs have the potential for such negative consequences, an unusual array of consumer, provider, insurer, and state organizations has opposed Association Health Plans. This Committee should join in that opposition.

That's not to say there isn't a crisis. With only 62 percent of small businesses offering their employees health insurance, we certainly all can agree that we must step forward with solutions to this persistent problem. However, AHPs are very problematic. I think a better approach would be to offer small businesses the option to buy into the Federal Employee Health Benefits Program and to give them substantial tax credits to make it affordable. By giving small businesses the buying power of purchasing in the large group market, we solve their access issues. By supplying tax credits, we solve their affordability crunch. And compared to AHPs, this approach would also ensure more choices of health plans, better quality coverage, and would strengthen fundamental consumer protections in the marketplace. I think this is a smart approach that we should all get behind.

In closing, with respect to the SBA's proposal to continue its aggressive workforce transformation efforts, let me say that the words like "streamlining," "realigning the Agency's human capital resources," and "running itself like a business," sound very good in theory, but the SBA's trade record of implementation has not been good. Take for example, the SBA's centralization of 7(a) loan liquidation from around the country to Herndon, Virginia. Centralizing these functions without leaving any expertise in the field turned out to be a mistake. Even a year after the center was to be up and running, it is, I understand, having trouble staying fully staffed and juggling its workload. Suffice it to say that the Committee will very carefully review any future workforce consolidation or buyout plans that the SBA may propose.

Again, I thank the Chair for having this important hearing. I look forward to hearing from the witnesses, the opinions of my colleagues, and I ask that the full of my remarks be published in the record along with letters and other written testimony provided to me.

United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510–6350

April 11, 2003

The Honorable Judd Gregg
Chairman
Committee on Appropriations
Subcommittee on Commerce, Justice, State and the Judiciary
United States Senate
Washington, D.C. 20510

The Honorable Ernest F. Hollings
Ranking Member
Committee on Appropriations
Subcommittee on Commerce, Justice, State and the Judiciary
United States Senate
Washington, D.C. 20510

Dear Judd and Fritz:

As the Ranking Democrat of the Committee on Small Business and Entrepreneurship, I am seeking your support to provide adequate funding for the Small Business Administration (SBA or the Agency) in FY2004. However, before I describe the needs of the Agency for this upcoming year, I want to thank you and your staffs for being so helpful to this Committee over the past few years. I recognize that in general, proportionate to all of those under your jurisdiction, the SBA account is one of the most technical and difficult and that it has been particularly demanding and complex lately. Ranging from funding for small businesses hurt by the terrorist attacks of 9/11 to the application of methods to improve subsidy rates, your Subcommittee has been extremely responsive and worked hard to enact key provisions that have literally rescued services critical to small businesses and our economy. The most recent example would be your inclusion of a technical amendment to S. 762, the FY2003 Supplemental Appropriations Act, on behalf of myself, our Chair Senator Snowe, and our colleague Senator Bennett. That small, obscure change becomes significant and understandable in application because it will make it possible for small businesses to access an estimated $1 billion in hard-to-obtain capital. Like me, the small business community is extremely appreciative.

Overview of FY2004 Budget Request

The Administration has requested $798 million for the SBA's FY2004 budget. While this request is equal to last year's, it is *not* level funding of the Agency's programs and expenses. In fact, for the third year in a row, the SBA's core small business programs are inadequately funded, significantly cut, or all together eliminated, while the Agency's administrative expenses have increased. To adequately fund those core programs, the budget is short about $117 million.[1] In addition, I ask that you consider restoring as much as possible of the funding for the New Markets Venture Capital program that was rescinded in the FY2003 Omnibus Appropriations Act Conference Report.

[1] $32 million for 7(a) Guaranteed Loans; $1.7 million for microloans; $20 million for microloan technical assistance; $15 million for PRIME; $7 million for BusinessLINC; $2.5 million for Women's Business Centers; $2 million for Native American Outreach; and $37 million for Small Business Development Centers = $116.9 million).

Of the four accounts through which the SBA is funded, I am particularly concerned about the budget requests for loans under the Business Loans Program Account and for entrepreneurial development programs under the Salaries and Expenses Account.

Business Loans Program Account

The request of funding to support $9.3 billion for the SBA's largest lending program, known as the 7(a) Loan Guarantee Program, is a vast improvement over the 57-percent cut requested for FY2003, but it is unrealistically low when compared to the past two years of lending activity and the projected volume for this year. The request repeats the funding "schemes" criticized in the FY2003 Omnibus Appropriations Act Conference Report, that noted it has left the SBA "depend[ent] on [Congressional] solutions of separate authorization and appropriation measures," solutions which would not have materialized without the support of your Committee.

In review:

For FY2002, the Administration requested a reasonable 7(a) Guaranteed Loan program level of $10.7 billion, but to fund it proposed eliminating all appropriations and shifting the cost to borrowers and lenders through increased fees. This was an unworkable solution because the existing borrower and lender fees were already too high, the result of a seriously inaccurate subsidy rate. To adequately fund this critical small business lending program, and to treat its participants fairly, Congress was forced to increase the requested appropriation by roughly $100 million and to pass legislation to reduce the fees to a fairer level until the SBA corrected the subsidy rate model. Congress also had to establish and fund a separate emergency 7(a) loan program, called the STAR program, to complement the SBA's Economic Injury Disaster Loans in order to help small business victims of 9/11 throughout the nation. Combined, $11.1 billion was loaned to more than 51,000 small businesses through 7(a) regular and STAR loans, surpassing the requested program level.

For FY2003, the Administration requested a program level of $4.85 billion, amounting to, as noted above, a 57-percent cut in loan dollars available to small businesses and 15 percent less in budget authority. These severe cuts to the 7(a) Loan Guarantee program had two causes: 1) the SBA did not adjust its request to accommodate the Congressionally mandated fee reductions passed in the previous session, and 2) the Agency did not adequately correct the continually erroneous subsidy rate as promised to Senators Domenici and Bond, then members of the Senate Budget Committee, and instead used a dramatically increased subsidy rate of 1.76 percent for the budget request. To stretch the inadequate funding, SBA contended it could continue to serve the same number of small businesses in need of financing with large sums of carry-over and a variety of over-simplified programmatic changes, such as steering real estate loans from the 7(a) program to the 504 program and exclusively making smaller loans. As the FY2003 Omnibus Appropriations Act Conference Report notes, these schemes never materialized. To keep from running out of money, the SBA put a cap on the 7(a) loan size, reducing the maximum amount each small business could borrow from $2 million to $500,000.

This exacerbated the rationing of capital in the private sector and prevented some small businesses from expanding and creating new jobs. In spite of the cap, loan volume for FY2003 is running ahead of the FY2002 pace, up 38.1 percent according to the SBA's latest report. Total lending volume for FY2003 is estimated to be $11.8 billion when combined with 7(a) STAR loans, again surpassing the requested program level.

For FY2004, given that the SBA's programs are counter-cyclical, growing in demand when the economy is weak and the private sector is tightening or rationing credit, it is not surprising that the projected demand for 7(a) loans is up to $12.5 billion; small businesses need access to long-term loans because their monthly payments are lower, enabling them to manage in leaner times. To adequately address the projected demand for small business capital in FY2004, and to keep from repeating the problems of the past two years, particularly implementation of another loan cap which has a negative impact on the subsidy rate, I respectfully request an additional $32 million, for a total $127 million, to support a program level of $12.5 billion in 7(a) loan guarantees to small businesses.

I have an additional concern about the 7(a) Loan Guarantee Program: the Administration's lack of cooperation with Congress and the General Accounting Office (GAO) in our efforts to review and verify the model. The post-econometric model subsidy rate seems more reasonable, and we appreciate the work of the SBA, the Office of Management and Budget (OMB) and the Office of Federal Housing Enterprise Oversight (OFHEO) on the model. However, when the government obstructs the timely flow of information and withholds information from the GAO, the Congress and the public about how the model was developed, it creates questions about the accuracy of the model, about the methods used to develop the model, and it perpetuates the serious lack of trust between SBA and the small business community. Further, the public deserves to know what it paid for. I ask that you join me and the bi-partisan leadership of the House Committee on Small Business in urging the Administration to cooperate with the GAO in its review of the econometric model by including direction in the Report to the FY2004 CJS Appropriations bill.

Also problematic is the FY2004 budget request for the SBA's direct microloan program level of $17 million, down from $26.5 million requested last year and almost $28.5 million provided for in the FY2003 Omnibus Appropriations Act Conference Report. The budget authority required to fund these levels is very little, and yet, for the second year in a row, the SBA has requested more money for its travel budget than for microloans. The FY2004 request is a 36-percent cut compared to last year's request and more than a 40-percent cut compared to what was provided for in the FY2003 Omnibus Appropriations Act Conference Report. These cuts represent a serious disconnect between the SBA's historical goal of making more small loans and reaching more women and minorities. The SBA justifies the cut by contending it can accommodate the same borrower through the less expensive 7(a) program. What this analysis does not include, and what the budget document neglects to disclose, is that 7(a) lenders themselves refute the contention that their loans are appropriate for the very small microloan borrowers who often lack experience with credit, that when microlenders tested SBA's claims and tried to make microloans through the 7(a) program they did not qualify for approval, and that the microloan subsidy rate is inaccurate.

Conventional sources of business credit, such as bank financing, are often beyond the reach of microentrepeneurs, and the SBA's microloan program successfully fills a critical role in solving this problem by funding community-based intermediaries to gain access to credit for the nation's smallest businesses. I certainly support efforts to reasonably reduce program costs, but shifting loans to the 7(a) loan program is nothing more than another problematic funding scheme, and it sends the wrong message to the women, veterans, African-Americans and Hispanics who are the main borrowers of SBA microloans. Further, on page 25 of the SBA's budget, the Agency itself supports the need for increased, not decreased, microloan funding: "The demand for microlending has increased because of the weakening economy and the increased awareness among potential entrepreneurs of the benefits of this program." Consequently, level with my request of last year, I respectfully request an additional $1.7 million for a total $3.34 million in order to fund a microloan program level of $35 million. I also ask that you continue to urge the SBA to develop more accurate subsidy rate models for all its loan and financing programs, including the microloan program, in time for the FY2005 budget submission.

For the 504 Loan Program, the SBA's program to spur economic development by helping growing small businesses buy land, buildings or equipment, the FY2004 budget fails to recognize the increase in loan demand. The program is growing, up almost 22 percent in lending dollars, with the possibility that more small businesses could turn to this program if banks ration credit further. Consequently, the small business community has requested an increase in the 504 lending level, up to $5 billion from the President's level request of $4.5 billion. This seems very reasonable given that the program is funded entirely through borrower and lender fees and requires no appropriations. Unlike the 7(a) loan program, these long-term loans have fixed rates, cannot be used for working capital, and by law require a business to create one job for every $35,000 borrowed. Last year, small businesses borrowed $3.2 billion in SBA 504 loans and created an estimated 91,000 jobs. I strongly disagree with the SBA's budget proposal to merge this program with the 7(a) program, on the allegation that it is duplicative, and, consistent with the request of the small business community, ask for you to approve a lending volume of $5 billion for FY2004.

Salaries and Expenses Account

For the third year in a row, the SBA budget request for non-credit programs and initiatives provided for under this account is not adequately funded, contradicting statements throughout the budget and the SBA Administrator's testimony before Congress regarding the correlation between small business success and access to training and counseling. These services become more important during a weak economy when managing a business becomes harder and the vulnerability to bankruptcy is higher. The budget references information from the Ewing Marion Kauffman Foundation and Dun & Bradstreet that indicates "80 percent of new businesses discontinue operation within five years because of lack of 'knowledge' of key business skills." Cuts to or inadequate funding of the SBA's entrepreneurial development programs are routinely attributed to vague and unfounded claims of duplication. Such claims mistake a common mission of training and counseling for duplication, ignoring the reality that small businesses vary greatly and have different needs. Just as it would be ineffective to only have one type of loan or venture capital financing structure for the 25 million small businesses in this country, it would be ineffective to water down specialized management and training programs to impose a one-size-fits-all approach.

These programs are cost-effective, returning much more to the economy in taxes and job creation than the Federal investment. Most of these programs have cost-sharing components with state and local entities, such as matching grants, so they leverage more for small businesses than the face value of the Federal grant. Moreover, where these small businesses have the SBA guaranteed loans, business training and counseling protects the taxpayer investment because the borrower is more likely to operate a successful business and to repay a loan. A good example is the SBA's Microloan Program, which has a necessary and complementary technical assistance component and has had no losses to the taxpayer since the program was established in 1992.

Unfortunately, the FY2004 SBA budget request of $15 million for the technical assistance component of the microloan program is not adequate to meet the demand for assistance from micro-borrowers. If implemented, the FY2004 budget will once again have the effect of reducing access to microloans because without a sufficient ratio of lending to technical assistance, the lender's exposure becomes too risky and it cuts back or stops lending. To service borrowers with outstanding loans and also those seeking new loans, the SBA's Microloan Technical Assistance must be funded at $35 million. I, therefore, respectfully request an additional $20 million for SBA Microloan Technical Assistance.

As important as capital is to entrepreneurs, debt is not always the answer. According to the well-respected Aspen Institute, 90 percent of micro-entrepreneurs do not seek microloans but instead training, technical assistance and access to market services. The Program for Investment in Micro-entrepreneurs (PRIME) fills this need by providing grants to micro-enterprise development organizations to offer training and counseling to entrepreneurs, 50 percent of which must be used to help low-income entrepreneurs, regardless of whether they seek access to capital. For the third year in a row, the budget eliminates all funding for this program. I request the full authorized amount of $15 million for the PRIME program.

Other necessary non-credit programs for small businesses were cut or all together eliminated. For BusinessLINC I request $7 million, for Women's Business Centers I request an additional $2.5 million for a total level of $14.5 billion, and for the Small Business Development Centers I request an additional $37 million for a total program level of $125 million. I am very concerned that the President's budget eliminates for the third year all funding for BusinessLINC. This program requires a one-to-one match and is unique in its approach to teaming small businesses with non-governmental organizations that can have a direct impact on their bottom-line through contracting or mentoring. While other programs focus on mentoring and training for small businesses seeking to gain contracts from Federal agencies, BusinessLINC focuses on private-sector, business-to-business links. For the third year in a row, the Women's Business Centers were recommended to be funded at $12 million. Between 1997 and 2002, women-owned businesses increased 14 percent, which is twice the rate of all firms in the U.S. It makes no sense to freeze funding for women's business centers when the demand is increasing. The grants to centers have been cut in past years because of inadequate funding. If we are to maintain the existing infrastructure of centers and also fund new centers so that women throughout each state have access to business counseling, which was Congress' intent when it passed the Women's Business Center Sustainability Act in 1999, then the program must be funded at $14.5 million. Finally, the Administration requested $88 million for the Small Business Development Centers (SBDCs) program. An increase of $37 million for a total $125 million in grants to states is substantial, but it is necessary to compensate for funding losses caused by the 2000 Census and to restore matching funds from the states. Twenty-four states have seen their Federal SBDC funding reduced. They did not lose funding because they had lost population but because the population in those states did not grow as fast as the national average.

Last year I supported the President's request of $1 million for Native American Outreach, and I am disappointed that this year the Administration eliminated all funding for it. With an average unemployment rate on reservations as high as 43 percent, it is inconceivable that one year of outreach is sufficient to have met our shared goal of building sustainable economic opportunities in those communities. In the FY2003 Omnibus Appropriations Act Conference Report, the Conferees provided $2 million for Native American Outreach and said in the Explanatory Report that they "expect the SBA to develop a strong outreach capacity with this initiative to ensure that underserved Native American tribes have the opportunity to participate in this program and other SBA non-credit and loan programs." Consistent with the level provided for in the FY2003 Omnibus Appropriations Act Conference Report, I respectfully urge you to provide $2 million for the Native American Outreach program in the FY2004 budget.

Separate from the training and counseling programs but still funded under the Salaries and Expenses Account, the Administration has requested a combined amount of more than $20 million to implement a plan to restructure the Agency's workforce and improve service to small businesses. While I support genuine, reasonable, and affordable improvements to the Agency, I do not support this plan in its current form and am skeptical of its cost-estimate because it has varied widely from $15 million to $55 million. Furthermore, the SBA should adequately fund its core small business programs before funding special projects.

Restoration of New Markets Venture Capital Funding

As part of the FY2004 CJS appropriations, I ask that you restore funding that was rescinded in the FY03 Omnibus Appropriations Bill for the New Markets Venture Capital (NMVC) Program: $10.5 million for guaranteed debentures, and $13.75 million in grants for NMVC technical assistance. In FY2001, Congress appropriated $22 million for debenture guarantees and $30 million in matching grant financing to support up to fifteen NMVC Companies. The first round of funding was obligated in July 2001, and our Committee had an agreement with the SBA that it would offer a second round of funding in the fall of 2002. However, as companies spent significant money and time to begin preparing proposals, SBA broke the agreement and did not issue a solicitation for the second round of funding. Because the $24.5 million reserved for a second round of funding was not obligated, it was able to be rescinded.

I respectfully urge you to restore as much of the funding for this program as possible. The NMVC program was part of a broad bipartisan initiative agreed to by Speaker Hastert and then-President Clinton to stimulate investment in low-income urban and rural communities. The other elements of that agreement included in the Community Renewal Tax Relief Act were the New Markets Tax Credits, additional empowerment zones, and a new program -- Community Renewal Zones. The goal of the legislation was to try a number of different approaches to alleviate poverty to better understand what works the best. With the exception of NMVC, all the other programs are going forward.

Again, thank you for your support of small business assistance. I look forward to your continued support. Please refer any questions to Ms. Kevin Wheeler of my Committee staff at 224-3722.

Sincerely,

John F. Kerry

WESST Corp Economic Development Team

February 14, 2005 FAX: 202-224-8525

Hon. John Kerry
Senate Committee on Small Business and Entrepreneurship
304 Russell Senate Office Building
Washington DC 20510 1

Re: SBA Women's Business Centers Appropriations

Dear Senator Kerry,

The Small Business Administration's Women's Business Center Program consists of 105 non-profit organizations across this country who serve more than 106,000 entrepreneurs each year-many of whom are low-income or persons of color. The Women's Economic Self-Sufficiency Team (WESST Corp) respectfully requests your attention to the following appropriations needs for our network of centers and the women we serve:

- **$16.5 million appropriation to provide continued funding to the Women's Business Center program and its network of 105 centers.**
- **A 48% ceiling on the appropriation that will be awarded to existing centers who have been in the program longer than 5 years (known as sustainability centers).**

During 2004, WESST Corp provided training and consultation services to over 2,600 women. Of these clients, 60 percent were minorities and over 65% were low-income. The resulting economic impact of our services led to the creation of 174 jobs, the start-up of 80 new businesses and $24.8 million in gross receipts for the 12 percent of our clients who provided revenue data. This impressive return on investment via the Women's Business Center grants provides a quantifiable justification for expanding this critical program.

Without these appropriation levels and conditions, Women Business Centers around the country, ***including WESST Corp***, face reduced private and State match funds, program budget cuts, staff layoffs and the reality of turning away potential and existing small business owners in their time of need.

The program has proven itself to be a success at creating jobs and re-investing in our economy. Since 1989, Women's Business Centers have trained and counseled over 500,000 clients, including over 106,000 in 2003 alone. During a period from 2001 to 2003, the number of entrepreneurs served nearly doubled (91% increase), the number of new firms created increased by 376% and fully 46% of the clients of women's business centers are women of color. During the last ten years, the enterprises counseled by these same women business centers generated an estimated economic impact of $500 million on an investment of only $37 million – producing a staggering 13% ROI.

Albuquerque • Farmington • Las Cruces • Newcomb • Roswell • Santa Fe • Taos
www.wesst.org • www.WesstArtisans.com • 800.GO.WESST

Having served as the Executive Director of WESST Corp since 1991, I am at a loss as to why significant amounts of time must be spent year after year to fight for the only federal program specifically focused on women business owners, the fastest growing sector of our economy. With economic growth being led by women-owned businesses, one could logically deduce that efforts to strengthen this sector, via the Women's Business Center Program, should be expanded and solidified. Yet, unfortunately, year after year, we find ourselves fighting for level funding and spending countless hours trying to ensure that the program is not eliminated altogether.

For 12% of WESST Corp clients in New Mexico to have generated $24.8 million in sales revenues in 2004 suggests, I believe, that efforts to eliminate the Women's Business Center Program and reduce or eliminate funding to sustainability centers make neither economic nor business sense.

Senator Kerry, we are very grateful for your past and continuing support of this vital program. While miniscule relative to other federal programs, the Women's Business Center Program plays a critical role in promoting women's entrepreneurship, particularly among socially and economically disadvantaged women.

On behalf of the over 15,000 women WESST Corp has served in New Mexico, we hope we can count on your leadership during this year as we once again work to ensure the ongoing stability of the Women's Business Center Program.

Sincerely,

Agnes Noonan
Executive Director

PENNSYLVANIA
WOMEN'S
BUS!NESS
CENTER

February 15, 2005

The Honorable John Kerry
304 Russell Building
Third Floor
Washington, DC 20510 1903

Re: SBA Women's Business Centers Appropriations

Dear Senator Kerry,

The Small Business Administration's Women's Business Center Program consists of 105 non-profit organizations across this country who serve more than 106,000 entrepreneurs each year- many of whom are low-income or persons of color. Pennsylvania Women's Business Center, a division of Community First Fund, respectfully requests your attention to the following appropriations needs for our center and the women we serve:

- **$16.5 million appropriation to provide continued funding to the Women Business Center program and its network of 104 centers.**
- **A 48% ceiling on the appropriation that will be awarded to existing centers who have been in the program longer than 5 years (known as sustainability centers).**

Because of the SBA funding, Pennsylvania Women's Business Center has been able to leverage funding from individuals, banks, community foundations and state economic development agencies. The total funding allows our organization to serve more than 300 clients per year with one-on-one counseling, classroom training and affordable loan capital.

Without these appropriation levels and conditions, Women's Business Centers around the country, ***including ours***, face reduced private and State match funds, program budget cuts, staff layoffs and the reality of turning away potential and existing small business owners in their time of need.

The program has proven itself to be a success at creating jobs and re-investing in our economy. Women's Business Centers since 1989 have trained and counseled over 500,000 clients, including over 106,000 in 2003 alone. During a period from 2001 to 2003, the number of entrepreneurs served nearly doubled (91% increase), the number of new firms created increased by 376% and fully 46% of the clients of Women's Business Centers were women of color. During the last ten years, the enterprises counseled by these same Women's Business Centers generated an estimated economic impact of $500 million on an investment of only $37 million – producing a staggering 13% ROI.

Thank you for allowing us to continue to serve the businesswomen of this great country today and tomorrow.

Sincerely,

Joan M. Brodhead
Director

Knowledge • Capital • Advocacy

30 W. Orange Street
PO Box 524
Lancaster PA 17608-0524
Phone: 717-393-2351 Fax 717-393-1757
www.pawomensbusinesscenter.org

Southern
Good Faith Fund

Building communities. Changing lives.

February 16,2005

Hon. Olympia J. Snowc
Senate Committee on Small Business and Entrepreneurship

154 Russell Senate Office Building
Washington DC 20510 1903

Re: SBA Women's Business Centers Appropriations

Dear Senator Snowe,

The Small Business Administration's Women's Business Center Program consists of 105 non-profit organizations across this country who serve more than 106,000 entrepreneurs each year-many of which are low-income or persons of color. Southern Good Faith Fund's Arkansas Women's Business Development Center (ARWBDC) respectfully requests your attention to the following appropriations needs for our center and the women we serve:

- **$16.5 million appropriation to provide continued funding to the Women Business Center program and its network of 104 centers.**
- **A 48% ceiling on the appropriation that will be awarded to existing centers who have been in the program longer than 5 years (known as sustainability centers).**

Without these appropriation levels and conditions, Women Business Centers around the country ***including ours*** face reduced private and State match funds, program budget cuts, staff layoffs and the reality of turning away potential and existing small business owners in their time of need. The ARWBDC serves over 800 women a year in the Arkansas Delta. We provide counseling, technical assistance, training, and access to financing. Over the past few years, we have been able to leverage over $400,000 because of the SBA grant.

The program has proven itself to be a success at creating jobs and re-investing in our economy. Women's business centers since 1989 have trained and counseled over 500,000 clients, including over 106,000 in 2003 alone. During a period from 2001 to 2003, the number of entrepreneurs served nearly doubled (91% increase), the number of new firms created increased by 376% and fully 46% of the clients of women's business centers are women of color. During the last ten years, the enterprises counseled by these same women business centers generated an estimated economic impact of $500 million on an investment of only$37 million – producing a staggering 13% ROI.

Thank you for allowing us to continue to serve the businesswomen of this great country today and tomorrow.

Sincerely,
Angela Duran
Angela Duran
President, Southern Good Faith Fund

1123 South University, Suite 1018 Little Rock, Arkansas 72204 phone 501.661.0322 fax 501.537.1193
www.goodfaithfund.org

February 16,2005

Hon. John Kerry
Senate Committee on Small Business and Entrepreneurship
304 Russell Bldg.
Third Floor
Washington D.C. 20510

Re: SBA Women's Business Centers Appropriations

Dear Senator Kerry,

The Small Business Administration's Women's Business Center Program consists of 105 non-profit organizations across this country who serve more than 106,000 entrepreneurs each year-many of whom are low-income or persons of color. **The Women's Center of Fayetteville** respectfully requests your attention to the following appropriations needs for our center and the women we serve:

- **$16.5 million appropriation to provide continued funding to the Women Business Center program and its network of 104 centers.**
- **A 48% ceiling on the appropriation that will be awarded to existing centers who have been in the program longer than 5 years (known as sustainability centers).**

The Women's Center of Fayetteville provides services to Cumberland and surrounding counties and sometimes beyond. During the 2004 grant period we served 882 (641A) persons. With the addition of two loan programs we anticipate this number increasing tremendously. The center is continuously pursuing other grant monies and ways to become self-sustaining.

Without these appropriation levels and conditions, Women's Business Centers around the country, ***including ours***, face reduced private and State match funds, program budget cuts, staff layoffs and the reality of turning away potential and existing small business owners in their time of need.

The program has proven itself to be a success at creating jobs and re-investing in our economy. Women's Business Centers since 1989 have trained and counseled over 500,000 clients, including over 106,000 in 2003 alone. During a period from 2001 to 2003, the number of entrepreneurs served nearly doubled (91% increase), the number of new firms created increased by 376% and fully 46% of the clients of Women's Business Centers were women of color. During the last ten years, the enterprises counseled by these same Women's Business Centers generated an estimated economic impact of $500 million on an investment of only$37 million – producing a staggering 13% ROI.

Thank you for allowing us to continue to serve the businesswomen of this great country today and tomorrow.

Sincerely,
Judi Superak
Judi Superak
Director, WBC

Post Office Box 2384 • Fayetteville, North Carolina 28302 • 230 Hay Street • Telephone (910) 323-3377 • Fax (910) 323-8828 • Web Site: www.wcof.org

KANSAS WOMEN'S BUSINESS CENTER

February 14, 2005

Honorable John Kerry
U. S. Senator
Senate Committee on Small Business and Entrepreneurship
304 Russell Senate Office Building, Third Floor
Washington DC 20510 1903

Re: SBA Women's Business Centers Appropriations

Dear Senator Kerry,

The Small Business Administration's Women's Business Center Program consists of 105 non-profit organizations across this country that serve more than 106,000 entrepreneurs each year- many of which are low-income or persons of color. Kansas Women's Business Center respectfully requests your attention to the following appropriations needs for our center and the women we serve:

- **$16.5 million appropriation to provide continued funding to the Women Business Center program and its network of 104 centers.**
- **A 48% ceiling on the appropriation that will be awarded to existing centers who have been in the program longer than 5 years (known as sustainability centers).**

Without these appropriation levels and conditions, Women Business Centers around the country ***including ours*** face reduced private and State match funds, program budget cuts, staff layoffs and the reality of turning away potential and existing small business owners in their time of need.

The program has proven itself to be a success at creating jobs and re-investing in our economy. Women's business centers since 1989 have trained and counseled over 500,000 clients, including over 106,000 in 2003 alone. During a period from 2001 to 2003, the number of entrepreneurs served nearly double (91% increase), the number of new firms created increased by 376% and fully 46% of the clients of women's business centers are women of color. During the last ten years, the enterprises counseled by these same women business centers generated an estimated economic impact of $500 million on an investment of only$37 million – producing a staggering 13% ROI.

Thank you for allowing us to continue to serve the businesswomen of this great country today and tomorrow.

Sincerely,

Sherry Turner

Sherry Turner
Executive Director

8527 BLUEJACKET STREET
LENEXA, KANSAS 66214
PHONE 913.492.KWBC
FAX 913.888.6928
WWW.KANSASWBC.COM

A Program of the Enterprise Center of Johnson County

NATIONAL WOMEN'S
BUSINESS COUNCIL

ADVISORS TO THE PRESIDENT,
CONGRESS AND THE SBA

February 14, 2005

Honorable John Kerry
Ranking Member
Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510
Via fax: 202-228-1814

Dear Senator Kerry:

Thank you for the Committee's request to comment upon matters pertaining to the U.S. Small Business Administration's proposed budget for fiscal year 2006. In accordance with the advisory authority granted us in Public Law 100-553, and on behalf of Chair Marilyn Carlson Nelson and the other members of the National Women's Business Council, I am writing you and Senator Snowe today to offer the thoughts of the Council on matters related to the Women's Business Center program, and other SBA-managed programs of concern to the Nation's women business owners.

First of all, we are gratified that, while many domestic programs have been cut or slated for removal, the only two programs in the Federal government focused specifically and exclusively on women-owned businesses—the National Women's Business Council and the SBA's Office of Women's Business Ownership—remain at prior-year funding levels. We support the $12 million proposed for the Women's Business Center program and the $750,000 slated for Council operations. While we know that we could accomplish so much more with increased funding, we are aware of the circumstances under which we are operating currently.

The National Women's Business Council urges Congress to ensure that the budget for the Women's Business Center program continue to be apportioned most appropriately to ensure that the greatest number of clients are served. The current agreement, allocating 48% of funds to existing centers, should be continued, and the Council believes that funding should continue to be extended to centers that meet their performance goals regardless of the number of years they have been in operation. This program is an investment in economic growth and job creation; one that yields a significant return on that investment. Indeed, the Council commissioned a study, released last summer, which showed that between 2001 and 2003, the $36.5 million investment in the program generated $500 million in gross business receipts, and helped to create 6,600 new businesses and 12,719 new jobs.

The Council is concerned with the proposed elimination of the SBA's 7(m) Microloan program. While the SBA suggests that the clients of this program could be served by the 7(a) program, the microloan program has unique characteristics that would not likely be offered by traditional lenders. In this program, as you know, grants are made to intermediary organizations, which typically combine smaller loans with training and technical assistance. This is the loan program with the greatest reach to women business owners. According to a recent NWBC analysis of SBA loan program performance over the past five years, fully 45% of 7(m) program loans, and 44% of the dollars lent in the program, went to women-owned businesses in FY2003—significantly greater shares than any other SBA loan program. The unique characteristics of this program, and its excellent reach into the women's business community, would be lost if it were combined with the 7(a) program.

The Council continues to be concerned about the unintended consequences of the zero subsidy approach to the 7(a) loan program., as well as zero funding of the 504 and SBIC programs. While it is clear that changes in the 7(a) program needed to be made to avoid any future suspension of program operations, such as that which happened last year when the guarantee ceiling was reached, the Council continues to believe that raising the fees charged to banks and reducing the SBA guarantee rate may actually act to reduce the amount of capital available to small businesses. Such actions would seem to shift more responsibility to financial institutions, which may not be as willing to make smaller, riskier loans to small businesses if their fees are higher and guarantee rates are lower. It is precisely those businesses for whom this loan program is designed—not the business that could have got a bank loan without an SBA guarantee. SBIC outreach to women-owned firms may suffer a similar fate under a zero subsidy approach.

We look forward to continued dialogue with the Committee and with the SBA as these issues are discussed during the course of the year. The National Women's Business Council is honored to represent the Nation's estimated 15.6 million women business owners—sole proprietors, majority owners and equally-owned firms alike—as well as countless other would-be women business owners. Thank you for requesting our input on these matters.

Sincerely,

Julie R. Weeks
Executive Director

On behalf of the members of the National Women's Business Council (see below)

Marilyn Carlson Nelson, Chair
Chairman & CEO, Carlson Companies, Inc.
Minneapolis, MN

Individual Members
E. Jean Johnson
President and CEO, LegalWATCH
Houston, TX

Laurie McDonald Jonsson
President and CEO, Stellar International
Seattle, WA

Organizational Members
Association of Women's Business Centers
Ann Marie Almeida, CEO

National Association of Women Business Owners
Mary MacRae, Past National President

U.S. Hispanic Chamber of Commerce
Maria Guadalupe Taxman, Board Member

Karen Kerrigan
President, Women Entrepreneurs, Inc.
Washington, DC

Claudia Laird
Vice President, Ability Center
San Diego, CA

Sheri Orlowitz
Chairman and CEO, Shan Industries, LLC
Washington, DC

Annie Presley Selanders
Principal and Owner, The McKellar Group, Inc.
Kansas City, MO

Susan Wilson Solovic
CEO, SBTV.com
St. Louis, MO

Women Impacting Public Policy
Terry Neese, President and Co-Founder

Women Presidents' Organization
Marsha Firestone, President

Women's Business Enterprise National Council
Susan Phillips Bari, President

MBSC
Minority Business Summit Committee

1100 Mercantile Lane, Suite 115A · Largo, MD 20774
Ph: 301-583-4648 · Fx: 301-772-8392

February 15, 2005

Senate Committee on Small Business
and Entrepreneurship
428A Russell Senate Office Building
Washington DC 20510

Chairwoman Snowe, Ranking Member Kerry and the other Members of the Committee:

Thank you for giving the Minority Business Summit Committee (MBSC) the opportunity to provide written testimony concerning the Small Business Administration's (SBA) FY 2006 Budget Request. The MBSC is comprised of national and regional small and minority trade/membership associations, representing over 25, 000 small businesses. Additionally, the MBSC is in active collaboration with Woman-Owned, Service Disabled Veteran and HUBZone trade associations and businesses.

The MBSC is concerned that the SBA's budget request does not provide sufficient resources to enable SBA to fulfill its mission of providing guidance concerning Federal small business programs, goals and performance oversight with respect to small business set-asides at each agency to ensure that these agencies are meeting the requisite small business prime and subcontracting goals. As you are aware, Public Law 97-219 prescribes that in order to fulfill the "statutory requirements relating to small business concerns, contracting officers may set aside solicitations to allow only such business concerns to compete. This includes contract actions conducted under the Small Business Innovation Research Program. No separate justification or determination and findings are required under this part to set aside a contract action for small business concerns."

In this regard, the MBSC is concerned about the following issues with respect to SBA's FY 2006 Budget Request:

7(j), HUBZone and 8(a) Funding
The funding for the 7(j), HUBZone, and 8(a) programs appears to be lumped into the overall budget of the Government Contracting and Business Development (GCBD) office. This change will make it very difficult to o effectively monitor the implementation and progress of these important small business programs. Additionally, as a result of this change, there is no guarantee that the funding allocations for these programs will continue in the future since these funds may business used at the discretion of the GCBD. The funding allocations for these programs should be listed as separate line items in SBA's Budget Request.

Office of Advocacy
The FY 2006 budget transfers $1.3 million in funds available for Advocacy Research from a line item and incorporates it into the budget for Executive Direction. Advocacy Research is responsible for impartial reports that address the economic impact on small firms caused by Federal regulations and actions, such as the recent findings that large businesses were inaccurately credited (over $2 billion) for receiving small business contract awards. The Office of Advocacy serves a vital and important role as an independent voice concerning small business issues in our nation. It is for this reason, that the Office of Advocacy should have a separate and independent funding account in order to better represent small business interests.

Women's Procurement Program and Women's Business Center Program
The Women's Procurement Program and the Women's Business Center Program did not receive any funds in the FY 2006 budget. The Small Business Reauthorization Act of 2000 allows Women-Owned Small Business (WOSB) Set-Asides for requirements in an industry where they have been substantially underrepresented. The Women's Business Center (WBC) Program provides training and technical assistance to women starting or expanding their business. The WBC has been able to assist thousands of women-owned businesses across the county. Funding for both of these important programs need to be restored.

Procurement Center Representatives
SBA's FY 2006 includes an inadequate funding increase for Procurement Center Representatives (PCRs). SBA has proposed an increase of 6 PCRs which would be a total number PCRs to 56 in the Federal government. PCR's are responsible for monitoring procurements (especially those that are bundled) and working to increase small business market share by initiating small business set-asides and ensuring sufficient subcontracting procurement opportunities. One of the most important functions of the PCR takes place at the pre-acquisition phase of the procurement process. There is evidence that government program and project officials are not adequately performing the market research responsibilities given the inordinate number of solicitations that are bundled and become Government-wide Acquisition Contracts (GWACs).

It is for this reason that there needs to be a substantial increase in the total number of PCR's monitoring Federal procurements. This 6 PCR increase included in the SBA's budget does not provide SBA with adequate coverage to fulfill obligations of this important responsibility. In last year's reauthorization, there was bipartisan support to increase the number of PCRs to the 46 that were assigned to major procurement centers, in addition to a minimum of one per state. This would have resulted in a total of 96 PCRs. In order to effectively monitor procurements more professionals are needed.

Again, we thank you for taking time to address our concerns. We have confidence that you will act in the best interests of small and minority businesses throughout our nation. Should you require additional information, please do not hesitate to contact me at 301.583.4648. We look forward to continuing to work with you on behalf of the small business community.

Sincerely,

Anthony W. Robinson

Anthony W. Robinson, Esq.
MBSC Chairman &
President and CEO
Minority Business Enterprise Legal
Defense and Education Fund, Inc.

The Association for Small Businesses in Technology, Inc.

February 17, 2005

Senate Committee on Small Business
and Entrepreneurship
428A Russell Senate Office Building
Washington DC 20510

Dear Chairwoman Snowe, Ranking Member Kerry and Committee Members:

The Association for Small Businesses in Technology, Inc. (ASBT) is pleased to submit written testimony concerning the Small Business Administration's (SBA) FY06 Budget Request. We have also appreciated the opportunity to work with the staff of the Senate Committee on Small Business and Entrepreneurship as well as the SBA to address and resolve small business issues. ASBT is affiliated with the Minority Business Summit Committee (MBSC). Collectively, we represent the interests of over 25,000 small businesses in the United States.

ASBT's mission is to promote, protect, and grow the federal, state and local market share of small and small disadvantaged businesses in the information technology, engineering and logistic support industries. ASBT's 2005 objectives include:

1) To increase the Federal government market share in the government technology market for small businesses in technology by advocating for the promotion of those OSDBU Directors who have exceeded their goals for 2 consecutive years;

2) To streamline the procurement regulatory requirements in order to increase competition in the small business community by removing barriers established by GSA which reduce market share for small businesses;

3) To advocate and promote small businesses in technology to Executive Managers in Federal agencies and require Cabinet Officers to publicly support small businesses in technology;

4) To advocate for an appropriately amended SBA Size Standard Proposal;

Carlyle Crescent Center, 1940 Duke Street, Suite 200, Alexandria VA 22314
703.684.3150, 703.548.9446 fax

5) To educate the small business community about converting full and open size bids to small business classification bids; and

6) To work with the Administration, Congress, the Office of Management and Budget, the Office of Federal Procurement and the Small Business Administration to develop a new approach for making the Subcontracting Program more effective.

The most important issues that ASBT continues to address include: contract bundling; the monitoring of Federal procurements; and Federal small business market share. With respect to SBA's FY06 Budget Request, ASBT is concerned about the following:

1) Procurement Center Representatives (PCR)

   SBA has included in its budget request funding for six (6) additional PCR's and funding for an e-PCR initiative. It is the PCR's responsibility to work with contracting officers, procurement officials and Federal agency small and disadvantaged business representatives to set-aside procurements and work to increase small business procurement opportunities. As a result of ASBT's advocacy work, it is very evident that there are not enough PCR's to fulfill this obligation government-wide. Additionally, if SBA implements its e-PCR initiative, there will still be a need for individuals to monitor these procurements. Therefore, a 6 PCR increase is not sufficient. Adding 6 PCR's will only bring the total number of PCRs working in the Federal government to fifty-six (56). Last year, the Senate Committee on Small Business and Entrepreneurship, in a bipartisan effort, recommended that SBA hire an additional forty-six (46) PCRs which would have brought the PCR total (1 per state and 1 per major procurement center) to ninety-six (96). ASBT strongly recommends that this Committee consider including funding for more PCR's in order to effectively monitor Federal procurements.

2) SBA Office of Advocacy

   The SBA Office of Advocacy plays an important role in providing counsel and advice to Congress and Federal agencies concerning small business issues. It is for this reason that ASBT is concerned that SBA's FY06 Budget Request removes funds available for Advocacy Research from a line item under non-credit programs and incorporates it into the budget for Executive Direction. Recently, the work of the Office of Advocacy brought to the Federal government's and our nation's attention the fact that large businesses incorrectly received contract awards that were reported as small. The Office of Advocacy's funding needs to remain independent of the SBA in order to remain an impartial entity that advocates on behalf of small businesses throughout our nation.

3) 7(j) Technical Assistance

ASBT is pleased that the SBA increased funding for the 7(j) technical assistance program from $1.5 million in FY 2005 to $2 million in FY2006, a program designed to provide assistance to emerging and developing small businesses. However, as a result of the increase in the need for technical assistance because of the Federal Service Disabled Veteran and HUBZone Programs, ASBT would like to see an additional increase in funding for this program.

It is our hope that this Committee will address ASBT's concerns with respect to SBA's FY06 Budget Request. In addition, please be advised that ASBT takes its advocacy role very seriously and we look forward to continuing to work with SBA and you to continue resolving small business concerns.

Thank you for your immediate attention to this matter.

Fernando V. Galaviz

Fernando V. Galaviz
Chairman of the Board

Marvin H. Masterson

Marvin H. Masterson, Esq.
Executive Director

Carlyle Crescent Center, 1940 Duke Street, Suite 200, Alexandria VA 22314
703.684.3150, 703.548.9446 fax

PILIERO, MAZZA & PARGAMENT, PLLC
ATTORNEYS AT LAW

FARRAGUT SQUARE
888 17TH STREET, N.W.
WASHINGTON, D.C. 20006

DANIEL J. PILIERO II
(1942-1990)
PAMELA J. MAZZA
JEFFREY J. PARGAMENT
ANDREW P. HALLOWELL
ANTONIO R. FRANCO
PHILIP M. DEARBORN III
FRANK C. GULIN
JENNAFER M. SEELEY
NAN KARGAHI
JENNIFER M. MORRISON

(202) 857-1000
FAX (202) 857-0200

pmp@pmplawfirm.com
www.pmplawfirm.com

February 16, 2005

VIA FACSIMILE AND E-MAIL
United States Senate
The Honorable Olympia Snowe
Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

Re: The President's FY 2006 SBA Budget Request

Dear Senator Snowe:

On behalf of the law offices of Piliero, Mazza & Pargament PLLC ("PMP"), we respectfully submit the following comments concerning the FY 2006 budget request for the United States Small Business Administration ("SBA" or "the agency"). Our firm specializes in assisting American small businesses in understanding and negotiating the legal landscape of state and federal small business procurement programs. As such, our comments focus specifically on the SBA's Congressional mandate, expressed in the Small Business Act, as amended ("the Act"), to help American small businesses participate in the federal procurement market.

I. Introduction

American small businesses are a driving force in our country's economy. Firms that are not dominant in their field create three in four new jobs and employ 99% of the American workforce. By incubating a stream of new small businesses, SBA provides American consumers and taxpayers the benefits of lower barriers to access, additional competition, and continuous innovation. Furthermore, by providing disadvantaged individuals and groups with opportunities through the federal government's sizable procurement activities, the SBA aids in redressing the socioeconomic consequences of historical events. Throughout the federal government, no agency serves the interests of small business entrepreneurs more diligently than the SBA. Accordingly, it is incumbent on the Executive and Legislative branch to provide sufficient funding and effective oversight to allow SBA to continue serving its mission. It is our opinion that the 2006 SBA budget request is not adequate to do so, particularly because of cuts in key outreach and training programs. Following are a few key points illustrating why we think so.

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II. Priorities for Mid-Size Concerns

Developing a stable of small businesses that serve the procurement needs of the federal government is a major goal of the SBA, and helping small businesses to flourish in this market is instrumental to other SBA goals. Given the quantity of taxpayer funds invested in the agency, close attention is warranted when, despite SBA's best outreach, training, and business development efforts, many small businesses fail after receiving SBA assistance. When trends in business failures are discernable, it is important to analyze any lessons that can be learned to increase the agency's cost-effectiveness by revising policies and programs. We believe that market conditions warrant such attention directed to mid-size businesses—those that recently exceeded or will soon exceed SBA size standards.

We have identified several factors contributing to failures among small businesses engaged in federal contracting, and we believe that SBA's budget should reflect the urgency of addressing these trends. First, small contractors are facing an ever quicker and more volatile infancy as a result of the ballooning size of federal contracts. Intuitively, one would think that the award of large, long-term contracts would provide stability and predictability for a small business. However, such procurements can push small businesses above applicable size standards, often disqualifying them from SBA assistance before they are able to master business activities key to survival as viable enterprises.

Second, the dilemma of the mid-size business is made worse by size standards, applicable to a high volume of procurements, that have not been revised to reflect dramatic changes in acquisition practices, particularly the shift from the acquisition of goods to the acquisition of services. Growth in the size of procurements and continued mergers and acquisitions among large contractors contribute to a widening gap between firms that scarcely exceed size standards and those that actually dominate their field. We encourage the Senate Committee on Small business to monitor any regulations arising from the recent advanced notice of proposed rulemaking on size standards, and insure that SBA has adequate resources to address this issue.

Third, because agency goal setting has been so effective in incentivizing small business utilization by contracting officers, we respectfully suggest that any proposal to allow agencies to count small business subcontracts toward goals is unnecessary and unwise. Doing so would reduce the quantity of business opportunities available to small businesses and diminish the quality of the experience small businesses acquire. Contract administration experience attained by assuming the responsibility of a prime contractor is qualitatively superior to experience gained as a subcontractor, and providing this experience in the form of prime contract assistance is key to insuring viable small businesses. Moreover, the status of prime contractor leads small businesses into a wider variety of operations, as compared to piecemeal subcontracts. Without emphasis on prime contract opportunities, small businesses in the federal marketplace are likely to fail at a greater rate, benefits of competition in the federal marketplace will recede, and the federal government's procurement options and value for money will inevitably diminish.

PILIERO, MAZZA & PARGAMENT, PLLC

Fourth, the investment of SBA resources into aggressive size status recertification efforts is an ineffective allocation of SBA resources. This issue is illustrated by the effect of recent regulations requiring size recertification at the time a small business contract is novated so that the procuring agency can determine whether to continue taking credit toward its small business utilization goal. This form of recertification encourages contracting officers to terminate contracts or stop issuing task orders that will no longer count toward their agency's small business goal. In turn, recertification leads to additional demands for the time and taxpayer-funded resources of already-strained contracting officers who must re-let an increased number of contracts and revise long-term agency procurement plans. Of course, no business has the unqualified right to profit, and regulatory burdens that prevent misconduct can be sound and rational. However, we respectfully submit that SBA should consider whether a more narrowly-tailored policy can be formulated that will not counteract the taxpayer-funded efforts of the SBA by harming the very same small businesses that the agency serves.

III. Procurement Center Representatives

With respect to business development for small contracting firms, few SBA activities rival the importance of the work done by Procurement Center Representatives ("PCRs"). Their efforts directly result in a growing supply of business opportunities for American small businesses. Generating this demand and facilitating supply is the core of SBA's goals for small business government contractors. Thus, we applaud the consistent funding levels in the FY 2006 budget for PCRs and PCR training, we commend their dedicated efforts, and we encourage any measure that would expand their ranks and improve their resources.

IV. Outreach and Training

Among SBA's most valuable efforts are those focused on increasing entrepreneurship and business ownership among demographic groups that, historically, have succeeded at abnormally low rates in small business and in the federal acquisition market. Among these groups are women, minorities, veterans (particularly service-disabled veterans), and residents of historically underutilized business zones. SBA outreach and training activities encourage the formation of nascent small businesses owned by socially and economically disadvantaged individuals. Inadequate funding for these activities sends a terrible message that the federal government is disinterested in the success of these groups. Thus, we suggest that the Senate Committee on Small Business restore funding for several outreach and technical assistance programs that the FY 2006 SBA Budget proposes to cut, including PRIME Technical Assistance, Native American Outreach, and Women's Business Center grants.

Such programs are key to enhancing the economic activity and prospects of the most disadvantaged communities in America, and are more than justified by their positive economic impacts, such as creation, increased business ownership, and reduced dependence on far costlier entitlement programs. For example, the SBA has clearly contributed to gains in the condition of Native Americans that were recently reported by Harvard University: business ownership among Native Americans is up to 200,000 in 2003 compared to just five in 1979; per-capita income of Native Americans grew by 1/3 between 1990 and 2000; and over the same period, on non-gaming reservations, unemployment dropped 2.5% while poverty dropped 7%. Rather than viewing these outreach programs as expendable, we urge the Senate Small Business Committee to consider that increasing funding for outreach and training is actually a fiscal discipline measure precisely because it leads to more income and other tax revenues, decreased entitlement spending, and more competitive acquisition prices.

V. Trade Assistance

The SBA's success in business development assistance has resulted in a substantial group of highly qualified small businesses working in industries that require substantial capital, technical knowledge, and experience. With advances in trade liberalization and globalization, American small businesses are discovering new opportunities to serve customers worldwide. We applaud and encourage the SBA's budget request for activities involving trade agreements, international economic policy, and national export strategy. To further these goals, we believe that the federal government can aid SBA's trade assistance efforts by opening up a portion of the federal procurement market that has, heretofore, been closed to SBA business development activities. We believe that the Executive and Legislative branches should provide clear authority for SBA to apply the Act to federal procurements requiring performance outside the continental United States.

Three years after passage of the Act, a regulation was implemented, absent any Congressional authority, to constrain its applicability to within the United States and its outlying areas. Now, almost forty-five years later, the domestic and international economies have undergone revolutionary changes, and the time is ripe to shift SBA's attention and resources toward opening up overseas markets to American small businesses. Just as domestic government contracts have been a steppingstone to commercial success for countless small businesses, we believe that opportunities in overseas government contracts can be a steppingstone for a new generation of entrepreneurs. With the indefinite duration and high cost of the Global War on Terror, injecting the competition and innovation characteristic of American small businesses into this market could spur new opportunities in the international marketplace.

VI. Conclusion

To summarize, we are concerned to see that much of the SBA's FY2006 budget request denies stable funding for SBA outreach and training activities. We believe that the current success of business development programs evidences that SBA is an effective steward of taxpayer funding. Furthermore, it is our opinion that the present personnel and programs of the SBA provide taxpayers and entrepreneurs with tangible benefits that justify increased, not

PILIERO, MAZZA & PARGAMENT, PLLC

decreased, financial support. On behalf of the law firm of Piliero, Mazza & Pargament, PLLC, I would like to sincerely thank you for the opportunity to provide our comments. If you have any questions or concerns about our comments, please do not hesitate to contact us.

With kind regards,

Pamela J. Mazza

Pamela J. Mazza, Esq.

WIPP
WOMEN IMPACTING PUBLIC POLICY

Statement of Mrs. Terry Neese, President

On Behalf of
Women Impacting Public Policy

Submitted to
Senate Small Business and Entrepreneurship Committee

"The President's FY2006 Budget Request for the SBA"

February 12, 2005

Women Impacting Public Policy
www.WIPP.org

Madam Chair and members of the Committee, I am pleased to submit the views of Women Impacting Public Policy (WIPP) on the proposed FY2006 budget for the Small Business Administration (SBA). WIPP, a bipartisan nonprofit organization, represents 505,000 women in business nationwide and 29 women business associations united in one voice.

Overall, the SBA has played a major role in encouraging the sector of the economy that has experienced growth and created jobs– small business. Women business owners have benefited greatly from the programs at the SBA and we commend the SBA on their ability to serve the needs of women who are starting and growing their businesses.

As businesswomen, we do not subscribe to the theory that a decrease in funding for the SBA equals lack of support for small business. In fact, we support efforts by the SBA to act more like a small business, taking into account the effectiveness of the programs and the numbers of "customers" they serve. We note that the SBA has taken steps similar to a business in evaluating their programs by using outcome measures and tracking number of small businesses served, for every program. .

The SBA, in its budget request for $592.9 million in FY06, makes what WIPP considers, a significant change in its budget request. Instead of keeping line item funding requests for its programs, it takes significant portions of its current non-credit programs and places them in the general operating budget to be used at the discretion of the Administrator. The Agency is requesting separate line item funding only for grant programs and the National Women's Business Council. Programs which will keep line item funding are, Small Business Development Centers, SCORE, Women's Business

Centers, Advocacy and Veteran's Outreach. Programs which SBA no longer has requested line item funding and are budgeted under the general operating budget are: Advocacy Research, Ombudsman; 7(j), HUBZones, USEACs, and Native American outreach.

While the SBA makes the case in its budget submission that placing programs under the general operating budget achieves management efficiencies, it also raises a concern with regard to implementation of the programs. Since the Congress and the Administration do not always agree on an agencies' program priorities, WIPP is concerned that strengthening the agency's hand by making it part of the general budget could lead to a transfer of funds among programs without oversight. WIPP suggests that Congress put into place a reporting mechanism whereby the consumers of SBA's services can be assured of the integrity of the programs which will now fall under the general fund. This is not to say that WIPP members question the current Administration's integrity; rather we want to make sure future Administration's integrity of the programs remain in tact.

In the budget atmosphere of cuts which currently face the agencies, WIPP acknowledges that steady funding for programs providing services targeted specifically to women business owners could be considered a victory. We would point out, however, that the SBA expects Women Business Centers (WBC) to provide greater assistance to more women who are socially and economically disadvantaged but with flat funding.

Since the SBA is transitioning its field structure from direct delivery of services to managing the delivery of services through its local resource partners (lenders, SBDC, SCORE, and WBCs), the agency expects WBCs to provide assistance to over 245,200 women in FY06. Included in that number are 175, 321 information transfer contacts, which refers to responses through electronic submission, such as emails. Since the WBCs are expected to deliver services to higher numbers than in the past, we believe it is essential that the SBA provide Women's Business Centers with the proper technology to be able to carry out the ambitious service delivery goals the SBA sets forth in this budget.

In addition, we note the Agency plans to put into place a comprehensive data and trends analysis model for WBCs. Since many of the WBCs have expressed a heavy paperwork burden for compliance with existing SBA rules and grant procedures, we sincerely hope this model will not impose any further paperwork burdens on the WBCs.

In FY05, the Congress required that 48% of the WBC funding go toward sustainability (existing) Centers. We are disappointed that the SBA has chosen not to include that funding formula in its FY06 request. WIPP has stated many times and will continue to believe that existing WBCs with a proven track record should be funded by this program. It just is not good business to fund new centers and stop funding the existing centers. WIPP continues to believe that devoting 52% of the funding for WBCs to the creation of new centers but spending 48% on existing centers is a much wiser use of taxpayer dollars. Women Business Centers provide essential services to women, especially socially and economically disadvantaged women who need a comprehensive support system in order to succeed in starting a business. We urge the Congress to put in place this formula for FY06.

Our support for the National Women's Business Council (NWBC) remains strong and we are pleased the Agency recognizes its importance to the women's business community by continuing to fund its programs at a slightly higher funding than in FY05.

The NWBC plays a key advisory role to the Administration and to the Congress on women's business policy as well as being advocates for women business owners.

Of particular importance to the women's business community, is SBA's procurement assistance because of the continued barriers to contracting in the federal sector and the failure of many agencies to reach the 5% goal for women owned businesses. The SBA, in its strategic plan for FY06 states that an important part of small businesses' ability to successfully bid on contracts is their knowledge of how to prepare winning proposals. The NWBC held an "Access to Government Markets" roundtable discussion, September 13, 2004 in Washington, DC. Items discussed were: Best Practices, Challenges, and Recommendations. This information is available on the www.nwbc.org website.

SBA states that Procurement Center Representatives (PCRs) provide critical technical assistance to small businesses. The SBA also states that it is asking its PCRs to shift some of their focus from counseling for small businesses to reviewing and influencing procurements. WIPP believes that this additional focus is critical to providing contracting opportunities to small businesses. We also believe that the Congress should consider granting additional funding to hire additional PCRs. It is our understanding that the SBA intends to hire six additional PCRs, but WIPP members believe the number should be much higher.

With regard to federal contracting, SBA plays a pivotal role in ensuring that government agencies feel compelled to meet their small business goals. Initiatives such as business matchmaking scratch only the surface in all of the government contracting activities the SBA oversees. We urge the Congress to strengthen the SBA's hand by giving it adequate funding and resources to carry out procurement initiatives and agency review of contracts.

Access to capital continues to pose a barrier to business growth and development to women business owners. Last year, the SBA changed the structure of the 7(a) loan program. We urge the Congress to monitor closely the new fee structure that is currently in place in the SBA lending programs, making sure that the fee structure does not negatively impact the borrowers. WIPP has stated in the past that changes in the loan program should not raise fees on small business borrowers.

The SBA has chosen not to request funding for the Microloan program because the agency believes the commercial market is adequately filling this role. The Microloan program has unique characteristics which would not likely be offered by traditional lenders. This is the loan program with the greatest reach to women business owners. According to a recent NWBC analysis of SBA loan program performance over the past five years, 45% of 7(m) program loans, and 44% of the dollars lent in the program, went to women-owned businesses in FY 2003—significantly greater shares than any other SBA loan program. WIPP members believe the unique characteristics of this program, and the reach into the women's business community, would be lost if it were combined with the 7 (a) program. Add to that, the concern with the zero subsidy approach to the 7 (a) loan program. WIPP urges the Congress to closely monitor whether SBA's assumption is correct. If women business owners do not receive adequate lending by commercial banks in this market segment, we urge the Congress to reinstate the program.

Thank you for the opportunity to submit our comments on the FY06 proposed budget for SBA. WIPP strongly believes that SBA provides important services to women nationwide and we urge the Congress to adequately fund this important agency...

HUBZONE
CONTRACTORS NATIONAL COUNCIL

February 11, 2005

The Honorable Olympia J. Snowe
Chair, Committee on Small Business
And Entrepreneurship
United States Senate
Washington, DC 20510

Dear Chairwoman Snowe:

The HUBZone Council is responding to your request for comments on the SBA Budget for FY 2006. Since the creation of the HUBZone Program nearly six years ago, the SBA has not funded the Program to the level needed to create jobs where America needs jobs the most. The SBA FY 2006 submission to the Congress for the HUBZone Program represents an approximate "straight lining" of the FY 2005 levels. This is insufficient and should be adjusted by the Congress.

The federal government has never achieved the statutory 3% goal in HUBZone contracting. In the most recent year for which data is available (FY 2003), the Government achieved less than 1.5%. This represents less than one half of the statutorily mandated 3% minimum level. HUBZone contracting creates real jobs in America's poorest areas and if the SBA focused more resources in this area, the payback to America would be great.

The table below begins to tell the story:

	HUBZone Program	8(a) Program
Current # of SBA Certified Firms	11,000	7,500
SBA's Requested Funding for FY 2006 (per table on page 111 regarding Long Term Objective 2.3)	$3,023,000	$24,147,000
FY 2006 Funding per Certified Firm	$275	$3,219

The SBA has requested $24 million for 8(a) and only $3 million for HUBZone yet the HUBZone portfolio of firms is 46% larger than the 8(a) portfolio! From the above table we see that the SBA has requested for FY 2006 $3,219 for each and every 8(a) firm in their portfolio while only requesting $275 for each HUBZone firm in their portfolio.

3213 Buena Vista Terrace SE, Suite 1, Washington, DC 20020
(703) 963-7595 (240) 465-0418 fax
www.hubzonecouncil.org hubzonecouncil@aol.com

The HUBZone Program is designed to create jobs where America needs them the most. More than 35 million Americans live in poverty today. The HUBZone Program will bring millions of these Americans an opportunity to work productively on federal contracts. The HUBZone Program targets our poorest areas and creates good jobs with good benefits.

Despite this, the federal government has not even come close to meeting its 3% HUBZone contracting goal. Today, there are more than 11,000 certified HUBZone firms. Today, we have 73 certified HUBZone firms based in Maine and only five 8(a) firms based in Maine. Nationally, 8(a) firms receive nearly 12 times the funding levels as HUBZone firms do! Year in and year out, the federal government exceeds its SDB/8(a) contracting goals. No one can even remember when the federal government last failed to achieve its SDB goal. However, we have far to go to meet the minimum HUBZone contracting standard of 3% and it will take resources to achieve this goal.

This Council recommends that the Senate earmark a minimum of $10 million for the HUBZone Program for FY 2006.

Sincerely,

Ronald S Newlan

Ronald S. Newlan
Chairman

Copy to: Senator Christopher Bond
Senator George Allen

3213 Buena Vista Terrace SE, Suite 1, Washington, DC 20020
(703) 963-7595 (240) 465-0418 fax
www.hubzonecouncil.org hubzonecouncil@aol.com

Maine Technology Institute

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Friday, Feb. 11, 2005

Senator Olympia J. Snowe
Chairwoman
Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

Dear Senator Snowe –

Thank you for the opportunity to comment on MTI's activities regarding FAST and ROP. Please enter this letter into the record for the committee's hearing on the SBA budget for fiscal year 2006.

MTI leverages FAST and ROP to drive the vitality, competitiveness and clustering of tech-based small businesses across Maine. Funding from these competitive awards enables MTI to create a statewide entrepreneurship network, facilitating access to business expertise, markets and capital.

MTI currently runs a strong commercialization-assistance program with funding from fiscal year 2004. The FAST award accounts for $95,000, with $157,000 in matching state funds. The ROP award is worth $49,000, with $25,000 in matching state funds. MTI integrates these awards, such that the institute can achieve management efficiencies in the development, promotion, execution and performance-measurement of high-quality commercialization services.

Specifically, MTI's unified FAST and ROP program includes the following activities.

> *Improving the quantity and quality of SBIR proposals to federal agencies* – Since the inception of Maine's SBIR technical-assistance program in 1997, SBIR investment in the state has increased steadily, growing from $1.5 million in 1997 to more than $4 million last year. Similarly, the number of SBIR projects awarded to Maine firms has grown from five in 1997 to 23 in 2004. For 2005, MTI will commit more than 2,700 hours of outreach and consulting time to businesses submitting SBIR proposals. The institute anticipates that this assistance will return approximately 30 awards and an investment in Maine of $6 million.

> *Producing an intensive 10-week series of commercialization workshops* – The workshop series cultivates the marketing and sales of tech-based products and services developed by Maine entrepreneurs. Designed to promote interaction within a small group, the workshops provide hands-on and practical knowledge to support go-to-market activities. The series challenges firms to think strategically and analytically while facilitating exploitation of the business opportunity. Since inception of the series in 2002, 40 firms have completed the coursework. This year's series, starting in the spring, will feature increased use of the Internet. Live "web streaming" will encourage participation by firms in rural areas, and on-line "threaded" discussions will enable a continuing exchange of ideas outside the physical workshop.

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- *Growing small businesses with the Maine Tech Trackers* – Maine Tech Trackers are MTI's volunteer business advisors. Motivated by an interest in playing a role in Maine's economic development, Tech Trackers provide short-term and targeted assistance to MTI portfolio companies. Recruited statewide, Trackers are entrepreneurs, senior managers in large firms, and venture capitalists. They volunteer a small portion of their time to help MTI clients overcome specific business challenges, including accounting, engineering tests for patent applications, and business valuation for the purposes of a sale. In their role as mentors, they support small businesses by providing encouragement, critique and advice.

Finally, MTI's commercialization-assistance program supports the institute's financial investment in portfolio companies. There is empirical evidence that these investments are paying off. According to a recent independent study by the University of Southern Maine, MTI portfolio companies have experienced significant success in developing and commercializing new products. Further, financial investment in MTI clients has led to above-average increases in employment and salaries, and has catalyzed access to additional capital. While these results clearly are encouraging, a lot remains to be done.

John Massaua, state director of the Maine Small Business Development Center, may discuss these issues before your committee. Should you require additional information, however, please do not hesitate to contact me.

Regards,

Simon Varney
External Program Manager

NATIONAL WOMEN'S
BUSINESS COUNCIL

ADVISORS TO THE PRESIDENT,
CONGRESS AND THE SBA

February 14, 2005

Honorable Olympia J. Snowe
Chair
Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510
Via fax: 202-224-4885

Dear Senator Snowe:

Thank you for your request to comment upon matters pertaining to the U.S. Small Business Administration's proposed budget for fiscal year 2006. In accordance with the advisory authority granted us in Public Law 100-553, and on behalf of Chair Marilyn Carlson Nelson and the other members of the National Women's Business Council, I am writing you today to offer the thoughts of the Council on matters related to the Women's Business Center program, and other SBA-managed programs of concern to the Nation's women business owners.

First of all, we are gratified that, while many domestic programs have been cut or slated for removal, the only two programs in the Federal government focused specifically and exclusively on women-owned businesses—the National Women's Business Council and the SBA's Office of Women's Business Ownership—remain at prior-year funding levels. We support the $12 million proposed for the Women's Business Center program and the $750,000 slated for Council operations. While we know that we could accomplish so much more with increased funding, we are aware of the circumstances under which we are operating currently.

The National Women's Business Council urges Congress to ensure that the budget for the Women's Business Center program continue to be apportioned most appropriately to ensure that the greatest number of clients are served. The current agreement, allocating 48% of funds to existing centers, should be continued, and the Council believes that funding should continue to be extended to centers that meet their performance goals regardless of the number of years they have been in operation. This program is an investment in economic growth and job creation; one that yields a significant return on that investment. Indeed, the Council commissioned a study, released last summer, which showed that between 2001 and 2003, the $36.5 million investment in the program generated $500 million in gross business receipts, and helped to create 6,600 new businesses and 12,719 new jobs.

The Council is concerned with the proposed elimination of the SBA's 7(m) Microloan program. While the SBA suggests that the clients of this program could be served by the 7(a) program, the microloan program has unique characteristics that would not likely be offered by traditional lenders. In this program, as you know, grants are made to intermediary organizations, which typically combine smaller loans with training and technical assistance. This is the loan program with the

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greatest reach to women business owners. According to a recent NWBC analysis of SBA loan program performance over the past five years, fully 45% of 7(m) program loans, and 44% of the dollars lent in the program, went to women-owned businesses in FY2003—significantly greater shares than any other SBA loan program. The unique characteristics of this program, and its excellent reach into the women's business community, would be lost if it were combined with the 7(a) program.

The Council continues to be concerned about the unintended consequences of the zero subsidy approach to the 7(a) loan program., as well as zero funding of the 504 and SBIC programs. While it is clear that changes in the 7(a) program needed to be made to avoid any future suspension of program operations, such as that which happened last year when the guarantee ceiling was reached, the Council continues to believe that raising the fees charged to banks and reducing the SBA guarantee rate may actually act to reduce the amount of capital available to small businesses. Such actions would seem to shift more responsibility to financial institutions, which may not be as willing to make smaller, riskier loans to small businesses if their fees are higher and guarantee rates are lower. It is precisely those businesses for whom this loan program is designed—not the business that could have got a bank loan without an SBA guarantee. SBIC outreach to women-owned firms may suffer a similar fate under a zero subsidy approach.

We look forward to continued dialogue with the Committee and with the SBA as these issues are discussed during the course of the year. The National Women's Business Council is honored to represent the Nation's estimated 15.6 million women business owners—sole proprietors, majority owners and equally-owned firms alike—as well as countless other would-be women business owners. Thank you for requesting our input on these matters.

Sincerely,

Julie R. Weeks
Executive Director

On behalf of the members of the National Women's Business Council (see below)

Marilyn Carlson Nelson, Chair
Chairman & CEO, Carlson Companies, Inc.
Minneapolis, MN

Individual Members
E. Jean Johnson
President and CEO, LegalWATCH
Houston, TX

Laurie McDonald Jonsson
President and CEO, Stellar International
Seattle, WA

Organizational Members
Association of Women's Business Centers
Ann Marie Almeida, CEO

National Association of Women Business Owners
Mary MacRae, Past National President

U.S. Hispanic Chamber of Commerce
Maria Guadalupe Taxman, Board Member

Karen Kerrigan
President, Women Entrepreneurs, Inc.
Washington, DC

Claudia Laird
Vice President, Ability Center
San Diego, CA

Sheri Orlowitz
Chairman and CEO, Shan Industries, LLC
Washington, DC

Annie Presley Selanders
Principal and Owner, The McKellar Group, Inc.
Kansas City, MO

Susan Wilson Solovic
CEO, SBTV.com
St. Louis, MO

Women Impacting Public Policy
Terry Neese, President and Co-Founder

Women Presidents' Organization
Marsha Firestone, President

Women's Business Enterprise National Council
Susan Phillips Bari, President

National
WOMEN'S
BUSINESS
Council

Research in Brief

Prepared by the National Women's Business Council September 2004 ★ RB2004-003

Analyzing the Economic Impact of the Women's Business Center Program

The U.S. Small Business Administration's Women's Business Center (WBC) program – administered by the Office of Women's Business Ownership since its establishment in 1989 – provides funding to non-profit organizations which provide training and technical assistance to new and nascent women business owners. The program places particular emphasis on reaching out to socially and economically disadvantaged populations. Since the program's inception, it has trained and counseled over 500,000 clients, including over 106,000 in 2003 at 92 women's business centers.

While there is information on the extent of the program's reach, and some anecdotal information about its economic impact, there has not been a systematic analysis of program outcomes and impacts. This study helps to address that gap by: quantifying the economic impact of the program by measuring program outcomes such as businesses and jobs created; identifying factors that can account for success; and by examining whether or not there is a specific type of women's business center that can lead to greater program success.

Background

In Spring 2004 Quality Research Associates (QRA) undertook an analysis of the economic impact of the Women's Business Center (WBC) program. Using primarily the WBC data provided by the Office of Women's Business Ownership (OWBO) for 2001, 2002, and 2003, the analysis focused on both internal and external factors. Internal factors included WBC demographics – geographic location and years a WBC has been in existence – and outcomes – number of businesses started, gross receipts, profits, losses, and new jobs created. External factors included business assistance alternatives, city/town size, race-ethnic composition, and local poverty rates.

Economic Impact

The WBC program has gained great momentum between 2001 and 2003 in terms of clients served, those counseled and trained, gross receipts, profits, the creation of new jobs and new firms started. This investigation uncovered phenomenal growth in both activities and impact:

- Contacts rose 61% and clients served almost doubled (91% increase) from 2001 to 2003.
- From these increasing numbers of nascent and existing entrepreneurs and small business owners, clients of women's business centers generated a total economic impact of nearly $500 million in gross receipts, with profits of $51.4 million and losses of only $11.8 million.
- WBC clients also created 12,719 new jobs, and started 6,660 new firms.
- More than one-half of the Centers saw growth in the number of clients served, gross receipts, profits generated, and new jobs created.
- Nearly one-half of the Centers have shown growth in the number of new firms started. This growth occurs in Centers regardless of their geographic location and respective demographic characteristics.
- Economic impact growth is substantial. From 2001 to 2003, the growth of total gross receipts of WBC client firms was 824%.
- Profits in these firms increased by 490%, while losses were less than 2% of gross receipts.
- The number of new jobs created by WBC clients increased by 481% from 2001 to 2003, and the number of new firms increased by 376%.

Metrics created from these activity and growth figures provide insight into what a Center must do in order to produce economic impact. For example, it was found that:

- It takes an average of 3.3 contacts to generate a client who, in turn, will produce economic impact. While it is not known which contacts will turn into clients, the importance of continually and consistently providing information and materials to prospective clients is critical.
- For every 14 clients a WBC serves, one new job is created. Given the mix of clients that WBCs serve,

multiple industries, and growth goals for individual owners, a 1:14 ratio is excellent.

- For every 25 clients served, one new firm is started. This metric essentially speaks to the large number of nascent entrepreneurs and the length of time it takes from idea to implementation. Also, the effect of clients who are already in business is unknown.

In addition to the high levels and growth of activities and economic impacts, the WBC program is reaching its targeted population.

- While one in five women business owners nationally is a woman of color[1], in 2003 WBCs had a client mix which included 46% women of color.
- Over the three years, more than two-thirds of the WBCs have experienced growth in the numbers of minorities served. In fact, four in ten WBCs enjoyed an increase of 100 percent or greater in the number of non-White clients served from 2001 to 2003.

Factors that may influence the success of WBCs, such as location and the corresponding population size and poverty level, whether the Center operates as an autonomous organization (stand-alone) or is part of a larger structure (bundled), how long a Center has been operating, and whether business assistance services are provided by other organizations were investigated. It was discovered that:

- Urban locations have more clients, and non-urban locations create more jobs.
- The influence of population size and poverty level on outcomes and activities were relatively minor.
- Organizational structure and years in operation were highly correlated: Centers which have been around for more than five years are more likely to be affiliated with a larger organization, such as a chamber of commerce, or economic or community development agency.
- Impact differences as a result of this structure included the facts that stand-alone centers had more training clients while bundled Centers had greater numbers of contacts.
- The availability of a Small Business Development Center (SBDC) in the same town or city did not appear to impact WBC success. As such, it appears that the WBCs serve a need and population even in areas that have an SBDC.

The lack of significance for multiple service providers appears to show that there are plenty of clients and work to be done by all business assistance services. Clearly, there is no single best model for success. While there are differences in urban versus non-urban locations and in stand-alone versus bundled centers, success was found in a variety of models. Economic impact, economic growth, and Center activity growth is evident in WBCs operating in all settings.

It was found that there is value in growing the number of clients as this growth from 2001 to 2003 predicted growth in new jobs and start-ups. However, numbers alone did not predict gross receipts or profits. As such, positive economic impact is generated through the efforts of each Center to concentrate on their local area, meet the needs of that specific target population, and assist in the development of new and existing businesses. This is also a hallmark of program sophistication and integration – a WBC should reflect the individual uniqueness of its local area and the assets and needs therein.

Recommendations

Data Collection and Analysis

As with any research endeavor, more questions arise than answers provided, and this study is no exception. The limited descriptive data provided at the Center level does not allow further investigation into factors which may account for the success of one Center and not another. In addition, missing data complicates the reliability of the projections, even though mean imputation is a conservative approach used to handle missing data. With these facts in mind, we recommend the following steps to improve future analysis of the economic impact of Women's Business Center program:

- Strongly encourage each WBC to provide all data requested.
- Determine if individual-level data are being captured at the WBC and, if so, extract it to be used at a national level, masking identifiers if necessary.
- Look at additional variables to better understand success. For example, what specific programs or services create a pathway that is successful for individual clients, and which pathways are most successful for WBCs?
- Additional data which would be important to capture include: categories of wages for jobs (quality of jobs), years in business, self-employed, number of employees, what propelled clients into a WBC (motivation), what kinds of benefits does the business provide for the owner and employees, education attained, debt or equity investments, use of technology in the firm, and social networks/social capital influences.

[1] Center for Women's Business Research 2002 estimates

By providing better quality data and data from varying levels (both Center and client), future research will be able to discern the factors leading to success, thereby improving the likelihood of success for all WBCs.

Policy
Specific policy recommendations include:

- Continue to educate policymakers and economic development professionals on the viability of entrepreneurship, in all its myriad forms, as an economic development strategy.
- Invest in programs which show results. This investment needs to include funding for ongoing operations as well as generating new programs and services. Centers which have been operating for a number of years have learned a great deal about their communities and what works. Their continuation should be ensured.
- Invest in research to create and/or implement appropriate evaluation tools. Assisting Center directors to track and monitor their activities and impacts in a coordinated and valid manner will ensure actionable knowledge at the Center level and nationally.
- Support the coordination of Federal agencies to provide a blended funding stream to WBCs. A coherent strategy for funding and providing other resources across all federal agencies would provide both flexibility and stability for business assistance services, resulting in even greater economic impact across the country.

Methodology
Data for each WBC for the years 2001, 2002, and 2003 were provided by the SBA's Office of Women's Business Ownership. The data are aggregated totals for each Center and included multiple variables, such as total number of clients and contacts, number of clients counseled and trained, ethnicity, gender, veteran status, disability status of client, start-ups formed, jobs created, and businesses profits and losses. Information from WBC web sites was also gathered, including each Center's status as a stand-alone or affiliated entity and the exact location of each Center.

In order to understand the context within which each WBC functions, several other variables were collected from external sources, including: the existence of a Small Business Development Center (SBDC) and or Procurement Technical Assistance Center (PTAC) office; local population figures by race and ethnicity from the 2000 Census; poverty level figures for the area in which each Center operated; and official designation as metropolitan, rural, suburban, or micropolitan.

There were a total of 92 WBCs in 2003. Data availability by year and by variable differed by Center. Therefore, in some analyses undertaken, mean imputation was used for activities and outcomes (training, counseling, gross receipts, profits, losses, new jobs and start-ups). This conservative technique allows for the handling of missing data while not dramatically over- or under-estimating effects.

This report was prepared for the National Women's Business Council by Quality Research Associates (QRA), a woman-owned firm based in Kansas City, Missouri. Key associates, Kaaren Fife-Samyn and Gwen Richtermeyer, have more than 25 combined years of experience conducting research and program evaluation.

The **National Women's Business Council** is a bi-partisan Federal advisory body created to serve as an independent source of advice and counsel to the President, Congress, and the U.S. Small Business Administration on economic issues of importance to women business owners. Members of the Council are prominent women business owners and leaders of women's business organizations. The Council's mission is to promote bold initiatives, policies and programs designed to support women's business enterprises at all stages of development in the public and private sector marketplaces, from start-up to success to significance. For more information about the Council, its mission and activities, contact: National Women's Business Council, 409 3rd Street, SW, Suite 210, Washington, DC 20024; phone: 202-205-3850; fax: 202-205-6825; e-mail: nwbc@sba.gov, web site: http://www.nwbc.gov.

A copy of the report is available at www.nwbc.gov.

Statement of
W. Kenneth Yancey, Jr.
Chief Executive Officer
SCORE
(Service Corps of Retired Executives Association)

To the

United States Senate
Committee on Small Business and Entrepreneurship
February17, 2005

Madam Chairman, my name is W. Kenneth Yancey, Jr. and I am CEO of SCORE, the Service Corp of Retired Executives Association, headquartered in Washington, DC. Thank you for providing me this opportunity to offer written testimony regarding the proposed fiscal year 2006 budget for the U.S. Small Business Administration (SBA). I offer these comments on behalf of SCORE and the 10,500 volunteers who donate their time and talent to serve America's millions of entrepreneurs and those that would like to start a business. I will restrict my comments to SCORE and the proposed 2006 budget for SCORE.

Let me start by pointing out that SCORE's 10,500 counselors make a material contribution to the strength of our nation's economy and small business in particular. In the hundreds of communities where they volunteer their time, they help people start new businesses or improve existing ones, putting money into the local economies and creating jobs.

As the Committee knows, SCORE is the premier, all-volunteer organization in the United States of America that is dedicated to the success of small business owners and those who would like to start a business. SCORE has offered 41 years of volunteer service and has served nearly 7.0 million clients since its inception. SCORE's cadre of volunteers represents over 300,000 years of business experience and donated 1.4 million hours of volunteer service in fiscal year 2004. Based on an appropriation of $5.0 million, SCORE cost the federal taxpayer less than the federal minimum wage, per volunteer hour. SCORE represents a very low cost and an excellent value for business advice from successful business men and women.

In its 41-year history, SCORE has continued to evolve as an organization to better serve its client base. Today SCORE boasts more than 389 offices and more than 800 additional branches or service delivery points. SCORE's online counseling continues to grow and improve and now represents 32 percent of SCORE's total counseling. SCORE chapters continue to develop, lead and promote workshops and seminars on topics related to starting, growing or managing a small business. In fiscal year 2004, SCORE's volunteers counseled 222,055 businesses and individuals in 331,534 sessions and provided 6,899 workshops and seminars for more than 136,965 people.

The continued growth in SCORE services is dependent on marketing and promotional efforts at both the local and national level. In an effort to reach out to more existing and potential small business owners, SCORE continues to develop partnerships at the national level with companies that also serve the small business community. New partnerships include: the U. S. Chamber of Commerce, SMA Global, The International Franchise Association, First Data Corporation, Register.com and Intuit. In addition, the SCORE Association office provides local chapters with various marketing and promotional tools that are used to create broader awareness about SCORE and drive clients to their nearest SCORE chapter. Recent additions to these tools include public service announcements on behalf of SCORE by former LA Dodgers manager Tommy Lasorda and former astronaut Buzz Aldrin.

Diversity within SCORE's client base and volunteer counselor base continues to be a focus for SCORE. SCORE is a partner with The White House National Economic Council, the National Urban League, SBA and the Kauffmann Foundation in the Urban Entrepreneurship Initiative intended to provide various resources in underserved markets. We have recently signed a memorandum of understanding with the White House Initiative on Asian Americans and Pacific Islanders to expand SCORE's services to the Asian American Pacific Islander communities. Both of these initiatives provide opportunities for SCORE to recruit a more diverse cadre of volunteers. At the board level SCORE has developed an Advisory Board on the African American market chaired by James Pyles, Chairman of the Board of SCORE and an Advisory Board on the Women's market chaired by SCORE Board director Barbara Kasoff, President GrassRoots Impact, Inc. and Vice President, Women Impacting Public Policy. Both of these advisory boards are made up of individuals with strong knowledge of the markets on which they focus and are helping SCORE to reach out into those markets for the purpose of recruiting new volunteers.

SCORE is appropriately expanding its outreach to veterans of America's Armed Services. SCORE has added two new sections to it award-winning small business Website, "SCORE for Veterans" and "SCORE for National Guard and Reserve". Each of these areas within the SCORE Web site offer counseling and resources specifically for Veterans and members of the National Guard and Reserve. Many SCORE Chapters have also specifically reached out to Veterans and National Guard and Reserve including the Santa Anna, California Chapter with support from other California SCORE Chapters, Omaha Nebraska and Portland Oregon to highlight just a few. The men and women who now serve and have served in our country's Armed Forces deserve the additional effort provided by SCORE volunteers in SCORE chapters across the country.

With only 14 paid staff members in the entire organization, SCORE is entirely managed in the field by its volunteers. A few chapters contract for temporary clerical support to offset the increasing administrative burden that is required of volunteers. While SCORE understands and is supporting new SBA EDMIS data collection requirements, its implementation will more than double the data entry requirements for SCORE chapters further increasing the administrative burden on our volunteers at the chapter level and taking away from time that would be spent attracting and serving small business owners and those who would like to start a business.

In the last 10 years, SCORE's appropriation from the Congress has increased from $3.08 million to $5.0 million. SCORE has put those funds to use efficiently and the result is broader geographic coverage through the opening of new chapters and branches, a successful Web presence at www.score.org, the debut of SCORE's email counseling capability, as well as improved quality and better administration of the program as a whole.

SCORE is once again level funded at $5.0 million in the SBA's budget as proposed by the administration. We consider level funding in this extremely difficult budget environment a vote of confidence for the organization and appreciate the support of the authorizing and appropriating committees, as well as the SBA in this process. While we understand the reasoning behind level funding, SCORE will continue to have unmet needs, which, if met, would allow SCORE to further grow both the quantity and quality of the services it provides. This growth is the charge provided SCORE by the SBA in our grant documents.

In order for SCORE to grow both the quantity and quality of the services it provides, SCORE respectfully requests that the Committee consider a $2.0 million increase in SCORE appropriation to $7.0 million.

SCORE's appropriation has remained level at $5.0 million dollars since fiscal year 2002. At that time the appropriation was increased by $1.25 million from $3.75 million to $5.0 million. In the four years since the increase, SCORE has increased the services it provides to America's existing and aspiring entrepreneurs by more than 20 percent. During that same period, SCORE increased its online counseling to more than 30 percent of total counseling, re-launched its award-winning, small business Web site, developed and delivered two annual, leadership/training meetings and took on a substantially increased administrative burden at both the chapter and national level, as a result of shrinking SBA resources and staff at the district level.

An increase in SCORE's appropriation of $2.0 million would allow SCORE to continue to deliver on the goals articulated in its strategic plan, many of which are consistent with objectives outlined in the President's Management Agenda. To increase efficiency and effectiveness, SCORE would use a portion of the appropriation, $750,000 in the first year, to begin the development and delivery of an overall technology plan for the association. This would include the redevelopment of the underlying database software that powers SCORE's online counseling capability-resulting in the ability to grow this service well beyond the limits of the current software. Additionally, this new software would allow for a simplified client interface that provides for a more robust client interaction with SCORE. This will be a multi-year development effort resulting in higher quality client service, ease of use and the ability to more aggressively market and promote this valuable online service to more existing and potential small business owners.

SCORE would use a portion of the funds, $150,000 in the first year, to begin the integration of its accounting system, volunteer roster, skills inventory and EDMIS requirements into a relational data base allowing much more efficient reporting at every level of the organization and resulting in a greater focus on serving the needs of our small business clients and less on the administrative tasks that are a diversion. This will be a multi-year development effort and will ultimately reduce the administrative burden at the chapter and national level allowing for more focus on serving the needs of America's entrepreneurs.
SCORE would use $100,000 to create a national recruiting plan including skill, race, gender and ethnicity targets. The plan would include orientation and training modules that further assist SCORE chapters in continuously improving the quality of its services.

In the first year, the remaining $1.0 million would be used to improve the administration and expand our outreach at the chapter and district level. These funds budgeted to the field organization would be used to improve administration and reporting under the SBA's EDMIS requirements and improve our outreach to the entrepreneurs and aspirants in the communities that we serve.

As these major projects are completed and the efficiencies realized, funds will be used to enhance the breadth and depth of SCORE's reach into the communities where we serve.

Madam Chairman, we appreciate the support of this committee and your personal support of SCORE in our 41st year. We also appreciate the 41 years of successful partnership with the U.S. Small Business Administration. Thank you again for this opportunity to provide written testimony and we would be pleased to respond to any questions.

Respectfully submitted,
W. Kenneth Yancey, Jr.
CEO
SCORE Association