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THE PRESIDENT'S FISCAL YEAR 2007 BUDGET REQUEST AND LEGISLATIVE PROPOSALS FOR THE SBA

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

MARCH 9, 2006

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THE PRESIDENT'S FISCAL YEAR 2007 BUDGET REQUEST AND LEGISLATIVE PROPOSALS FOR THE SBA

THURSDAY, MARCH 9, 2006

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

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

Present: Senators Snowe, Coleman, Thune, Isakson, Vitter, Kerry, Landrieu, and Pryor.

OPENING STATEMENT OF THE HONORABLE OLYMPIA 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 welcome to today's hearing on the President's Budget and Legislative Proposal for the Small Business Administration. I want to thank Administrator Barreto for being here today as we examine the SBA's priority for the coming year.

At a small business forum earlier this year, President Bush said, "Small businesses have been a driving force behind the tremendous growth and job creation of recent years. By adopting sound policies that help our small businesses continue to grow and expand, we will keep the economy moving forward and extend prosperity and hope in our country."

Prosperity and hope do, indeed, embody the spirit of the 25 million small business owners in this country. They take risks others do not. They transform their ideas and dreams into realities. Their hobbies become their professions. Their entrepreneurial spirit is everywhere, and their products and services have made the United States the most prosperous, powerful and generous country on earth.

Small businesses represent 99 percent of all employers, create nearly 75 percent of all net new jobs, and employ 51 percent of the private-sector workforce. They are the foundation, the base, the core of our economy. America is America because of our small businesses.

Given these facts, I am truly disappointed by the proposed funding level of $624 million for the Small Business Administration for fiscal year 2007. Excluding the Disaster Loan Program, only $425 million will go to the SBA's core programs, which continues a trend of decreasing SBA budgets over the last 6 years that have reduced these programs by 25 percent in that period, as you can see on this chart that I think illustrates the point, and what is happening with the steady erosion and decline of funding. Moreover, since 2001, SBA proposes to reduce its overall budget by an astounding 37 percent. It is 25 percent of the core programs, and overall, it is 37 percent since 2001. The SBA's budget represents less than 3/100ths of a percent of the total Federal budget. Is this really the place for the administration to find additional savings when you get more bang for the buck with small businesses in generating jobs in America?

The SBA argues that it "does more with less," but the Agency's resources and employees are stretched too thin. We cannot, on one hand, cite how important small businesses are to our country and our economy, and on the other hand, refuse to provide the Small Business Administration with the resources it requires to meet its mission.

When Hurricanes Katrina and Rita hit to Gulf region, the SBA desperately needed a full complement of resources to respond to this unprecedented disaster. To date, the SBA has resolved 90 percent of small business disaster loans and 73 percent of all disaster loan applications submitted by victims of Hurricanes Katrina and Rita. The 80,000 loans approved for victims of these hurricanes will provide a total of $5.7 billion for the rebuilding of homes and businesses in the Gulf region. That is the good news.

On the other hand, only $450.6 million, or 8 percent of the total $5.7 billion, has actually been disbursed thus far. We are here today to urge the SBA, as we have been doing over the last 6 months, to improve its processes and its procedures and to get more money out to the people that need it in order to rebuild these economies. In fact, as we have also learned, the Agency's Disaster Credit Management System was incapable of handling the high volume disaster loan applications, and we have been working with the Administrator on this question, which they have had more than 350,000 thus far, and the SBA failed to accurately monitor its disaster financial information to implement its disaster transformation workforce strategy, and this tragic response to a devastating disaster must not be repeated.

We have consistently led efforts on behalf of this Committee to urge the Agency to improve its loan processing activities. We have consistently demanded that the SBA provide more effective relief to the hurricane victims. I have urged, and I know others as well in the Committee, and the Committee itself, has urged SBA officials to process hurricane disaster loans with greater urgency and efficiency.

Specifically, among other things, I have asked the SBA to develop a comprehensive disaster response plan that accommodates different scales of disasters, improve the process for accurately predicting disaster loan volumes, work with local resource partners to determine individual needs to better coordinate disaster relief efforts, hire additional employees for processing centers, including business loan offices and data entry staff, to meet the current demand, and hire additional loan verification officers to analyze damaged homes and businesses.

Beyond the doors of the SBA are volumes of small business success stories that remain untold. The SBA and its programs have generated a tremendous return on investment, helping to create or to retain more than 4.5 million jobs since 1999. Small businesses yearn to grow, flourish and thrive, and the SBA has the experience and the resources to be their bridge to success.

However, a steady decline in the SBA's budget could jeopardize its ability to provide these positive economic stimulus in the future. More importantly, if we fail to provide sufficient support to SBA's core lending and business development programs, we threaten to reduce small businesses' ability to compete.

In addition to analyzing the SBA's declining budget request, I am also deeply concerned about the SBA's plan to charge additional fees on small businesses in the 7(a), the 504 and the Small Business Investment Company programs. These are highly successful programs. None of them receives appropriations to subsidize its loans. Last year, at no cost to the taxpayer, the 7(a) program provided $14 billion in small business loans, the 504 program provided more than $10 billion in loans, and the SBIC program provided $2.9 billion. Now the administration proposes to increase fees on small businesses to raise $7 million in revenue, which will be used for the SBA's administrative costs. Increasing fees paid by small businesses is not the way to reduce the budget. These small businesses are already paying fees and taxes to fund the Agency. Let's not make it more costly for them to access financing.

SBA loan programs have produced success story after success story, which include Eric Thorson, the Administration's nominee to be the SBA's next Inspector General. At a hearing last week, Mr. Thorson told the Committee that he began his small business with an SBA veteran loan after returning from a tour of duty in Vietnam. SBA loans have assisted the founders of Federal Express, Outback Steak House, Calloway Golf, and thousands of other successful businesses.

The administration is also proposing that disaster loan borrowers be required to pay a higher interest rate after the first 5 years of their loan to lower the cost of disaster loans by a total of $41 million for fiscal year 2007. Putting a greater burden on disaster victims is a short-sighted policy that Congress should not adopt, and I strongly oppose this proposal.

I also intend to fight any attempt to eliminate the SBA's Microloan Program, which provides loans of up to $35,000 in technical assistance to new and growing small businesses. It is a relatively inexpensive program that helps entrepreneurs start and grow businesses throughout our Nation. In my own State of Maine, almost 90 loans have been made in this program over the last 2 years for a total of $1 million. It is a proven record or helping small businesses who otherwise could not secure financing, and I regret the administration's proposal would eliminate this crucial source of small business growth.

I will continue to oppose the administration's proposal to insufficiently fund programs such as the Small Business Development Centers, Veterans' Business Development, and Women's Business

Center, which served over one million clients in 2005. Not only have these programs been level funded for the last 4 years, but this year the SBA proposed to decrease their funding. These programs have exceeded their potential, and it is time to provide them with the necessary resources they need to reach and assist more small businesses.

During the course of this hearing, I also wish to examine the Agency's funding and management of Government contracting and business development programs, which are subject to your executive direction as well.

According to reports prepared by the GAO and the SBA's Inspector General last year, the SBA failed to review over 80 percent of bundled contracts. The SBA's oversight of prime contract awards and of the 8(a) program are among the Agency's major management challenges, and large contractors at the Department of Energy have repeatedly overstated their subcontracting achievements. Despite the claims last year to increase the Government contracting and business development budget by 5 percent, the budget actually reflects a $5 million decrease, and I applaud your decision to reverse this decline in 2007.

I think we can all agree in the final analysis that small businesses are essential to America's success. Therefore, a strong and vibrant Small Business Administration is instrumental to achieve that success. The status quo is simply not an option.

Administrator Barreto, this Committee is here to assist you today, and hopefully we can reverse some of the directions that have been proposed, because, frankly, I think it is somewhat of a dismal direction where SBA is headed, and we will get into a number of these issues, but I am deeply concerned.

Given the fact that Small Business, probably more than any other agency, can create more value for its money, and it seems counter-intuitive that we are moving in a direction that undercuts the very programs that created jobs and created businesses in America.

[The prepared statement of Chair Snowe follows:]

Senator Olympia J. Snowe
Chair, Senate Committee on Small Business and Entrepreneurship
"The President's Budget Request for the
Small Business Administration for Fiscal Year 2007"
March 9, 2006

Opening Statement

Good morning, and welcome to today's hearing on the President's Budget and legislative proposal for the Small Business Administration. Thank you, Administrator Barreto, for being here today as we examine the SBA's priorities for the coming year.

At a small business forum earlier this year President Bush said, "Small businesses have been a driving force behind the tremendous growth and job creation of recent years. By adopting sound policies that help our small businesses continue to grow and expand, we will keep the economy moving forward and extend prosperity and hope in our country."

Prosperity and hope do, indeed, embody the spirit of the 25 million small business owners in our country. They take risks others don't. They transform their ideas and dreams into realities. Their hobbies become their professions. Their entrepreneurial spirit is everywhere, and their products and services have made the United States the most prosperous, powerful and generous country on earth.

Small businesses represent 99 percent of all employers, create nearly 75 percent of all net new jobs, and employ 51 percent of the private-sector workforce. They are the foundation, the base, the core of our economy. America is America because of our small businesses.

Given these facts, I am truly disappointed by the proposed funding level of $624 million for the Small Business Administration for Fiscal Year 2007. Excluding the Disaster Loan program, only $425 million will go to the SBA's core programs, which continues a trend of decreasing SBA budgets over the last 6 years that have reduced those programs by 25 percent in that period, *as you can see in this chart*. Moreover, since 2001, SBA proposes to reduce its overall budget by an astounding 37 percent! The SBA's budget represents less than 3/100ths of a percent of the total federal budget. Is this really the place for the Administration to find additional savings?

The SBA argues that it "does more with less," but the Agency's resources and employees are stretched too thin. We cannot, on one hand, cite how important small businesses are to our country and our economy, and, on the other hand, refuse to provide the Small Business Administration with the resources it requires to meet its mission.

And when Hurricanes Katrina and Rita hit the Gulf region, the SBA *desperately needed* a full complement of resources to respond to this unprecedented disaster. As we have learned, the Agency's Disaster Credit Management System was incapable of handling the high volume of disaster loan applications – nearly 350,000 have been received so far -- and the SBA failed to accurately monitor its disaster financial information and to implement its disaster transformation workforce strategy. This tragic response to a tragic and devastating disaster *must not be repeated.*

I have led the effort to push the agency to improve its loan processing activities and I have consistently demanded that the SBA provide more effective relief to the hurricane victims. I urged SBA officials - publicly and privately - to process Hurricane disaster loans with greater urgency and

efficiency. Specifically, among other things, I asked the SBA to:

- **Develop a comprehensive disaster response plan that accommodates different scales of disasters;**

- **Improve the process for accurately predicting disaster loan volumes;**

- **Work with local resource partners to determine their individual needs to better coordinate disaster relief efforts;**

- **Hire additional employees for processing centers, including business loan officers and data entry staff to meet the current demand; and**

- **Hire additional Loss Verification Officers to analyze damaged homes and businesses.**

To date, while the SBA has resolved over 90 percent of small business disaster loans and over 73 percent of all disaster loan applications submitted by victims of Hurricanes Katrina and Rita for a total of $5.7 billion, the largest outstanding problem is that *only* $450.6 million of that total has actually been disbursed thus far, and I urge the SBA, as I have been doing for over six months now, to improve its processes and get more money out to the people who need it.

Beyond the doors of the SBA, are volumes of small business success stories that remain untold. From the local mom and pop shop to Ben and Jerry's ice cream, the SBA and its programs have a tremendous return on investment, helping to create or retain over 4.5 million jobs since 1999.

Small businesses yearn to grow, flourish and thrive and the SBA has the

experience and the resources to be their bridge to success. However, a steady decline in the SBA's budget could jeopardize its ability to provide this positive economic stimulus in the future. More importantly, if we fail to provide sufficient support to SBA's core lending and business development programs, we threaten to reduce small businesses' ability to compete.

In addition to analyzing the SBA's declining budget request, I am deeply concerned about the SBA's plan to charge additional fees on small businesses in the 7(a), 504, and Small Business Investment Company programs. These are highly successful programs. None of them receives appropriations to subsidize its loans. Last year, at no cost to the taxpayer, the 7(a) program provided over $14 billion in small business loans, the 504 program provided over $10 billion in loans, and the SBIC program provided $2.9 billion. Now, the Administration proposes to increase fees on small businesses to raise $7 million in revenue, which will be used for the SBA's administrative costs. Increasing fees paid by small businesses is not the way to reduce the budget. These small businesses are already paying fees and taxes to fund the Agency. Lets not make it more costly for them to get financing.

SBA loan programs have produced success story after success story, which include Eric Thorson, the Administration's nominee to be the SBA's next Inspector General. At a hearing last week Mr. Thorson told the Committee that he began his small business with an SBA veterans loan after returning from a tour of duty in Vietnam. SBA loans have also assisted the founders of Federal Express, Outback Steak House, Calloway Golf, and thousands of other successful businesses.

The Administration is also proposing that Disaster Loan borrowers be

required to pay a higher interest rate after the first five years of their loan, to lower the cost of disaster loans by a total of $41 million for FY2007. Putting a greater burden on disaster victims is a short-sighted policy that Congress should not adopt, and I strongly oppose this proposal.

I also intend to fight any attempt to eliminate the SBA's Microloan Program, which provides loans of up to $35,000 and technical assistance to new and growing small businesses. This relatively inexpensive program helps entrepreneurs start and grow small businesses throughout our nation. In my own State of Maine, almost 90 loans have been made in the program over the last two years, for a total of over $1 million. It has a proven record of helping small businesses that could not get any other financing, and the Administration's proposal would eliminate this crucial source of small business growth.

I will continue to oppose the Administration's proposals to insufficiently fund programs such as the Small Business Development Centers, Veteran's Business Development, and Women's Business Centers which served over 1 million clients in 2005. Not only have these programs have been level-funded for the last 4 years but this year the SBA proposed to decrease their funding. These programs have exceeded their potential and it is time to provide them with the necessary resources they need to reach and assist more small businesses.

During the course of this hearing, I also wish to examine the Agency's funding and management of government contracting and business development programs, which are subject to your executive direction.

According to reports prepared by the Government Accountability

Office and the SBA's Inspector General last year, the SBA failed to review over 80 percent of bundled contracts, the SBA's oversight of prime contract awards and of the 8(a) program are among the Agency's major management challenges, and large contractors at the Department of Energy have repeatedly overstated their subcontracting achievements. Despite your claims last year to increase the government contracting and business development budget by 5 percent, the budget actually saw a $5 million decrease. I applaud your decision to reverse this decline in 2007, but I am skeptical that your agency will follow through.

I think we all can agree that small businesses are essential to America's success, and that the SBA is a vital help to small businesses. We would be remiss to accept the status quo, rather than vigorously seek improvements.

The American economy needs a strong and vibrant Small Business Administration. This Committee is here to help you, Administrator Barreto, improve the SBA in any way possible to ensure the success of tomorrow's entrepreneurs. Of course, the agency has been subjected to criticism, including my own. I do this in the hope that we can move beyond criticism and find solutions to the problems so the SBA will exhibit the same passion for excellence found in the entrepreneurs it serves . That is why we are here today.

Finally, as the notice indicated to Members, we intend to report out the confirmation of Eric Thorson to be the next Inspector General of the SBA. As soon as we get a quorum, we will vote on the nomination.

I now recognize the ranking member, Senator Kerry.

Chair SNOWE. I now recognize the Ranking Member, Senator Kerry.

OPENING STATEMENT OF THE HONORABLE JOHN F. KERRY, A UNITED STATES SENATOR FROM MASSACHUSETTS

Senator KERRY. Madam Chairwoman, thank you very much. Thank you for this hearing and for that important opening statement.

When I think about it, as I was listening to your statement, it is a pretty remarkable statement to come from the chairperson of this Committee, which is the Committee of the majority which represents the same party as the administrator that has come here. This is not a party issue. It is not Republican/Democrat. It is sort of amazing that this budget would come to this Committee when you think of the past hearings that we have had over the last years with the same administrator and the same administration. It just seems like a Johnny-one-note process of repetition of the same-old, same-old, that does not seem to hear what anybody sitting at this table or on this Committee is saying.

I see this chart that shows increased loans, and I know what you are going to say. You are going to come in here and say we have got a big increase in the loans and so forth, but you did not do that. We did that. I mean you are going to come in here and show us a chart that says lending went up, and we did that. You did not propose it. You did not ask for it. You did not fight for it. We had to fight for it over your objection.

There is a piece of me that really did not want to come to this hearing. I am going to tell you that frankly. I have been here 22 years, I have never said that. The reason is there is just no dialogue. I do not know if you called the chairperson of this Committee and said, “Hey, how do we get this to be a working process this year? Why don’t we sit down before we put the budget together?” I do not know if you did that, but I know you did not do it with me.

I take a look at this, and I sort of say to myself, are you trying to get rid of the SBA? I mean, is that really what is going on here over a period of time? Well, the budget request has $624 million for the SBA. What do we have? $650 billion that has been going to Iraq, or more, and we got less than a billion dollars going to the SBA in its entirety, which is a reduction of 17 to 18 million compared to the 2006 budget. This is the sixth consecutive year of budget cuts for the SBA, resulting in a 37 percent reduction to the SBA funding since the Bush administration came into office, a 41 percent reduction when compared to the fiscal year 2001 budget request.

The SBA has experienced the deepest budget cuts of any Federal agency during the Bush tenure. It is the second year in a row SBA has been demoted as a major Federal agency. OMB no longer lists SBA among the major Federal agencies, which means it is impossible for Congress and the public to compare that budget with the previous years of other agencies. I have sent a letter to OMB, urging them to restore SBA to the list of major agencies, which I think it ought to be.

For the second year in a row the administration is proposing to eliminate line items for contracting and counseling programs, including the 7(j) Technical Assistance Program, the HUBZone Program, which Senator Bond from Missouri worked hard to put in place, and I joined with him in cosponsoring it when he was chairman. The Native American Outreach Program. What is it? Native American Outreach is complete in America? We got what we need in terms of Native American participation in the full citizenship of our country? Who recommended we cut that? U.S. Export Assistance Center Program, we do not need to increase American exports among small business?

Last year, I opposed that proposal, along with others, because it limits transparency and reduces the authority of this Committee, and the Appropriations Committee, to ensure that funds are allocated. It is almost as if it did not matter that we opposed it last year and changed it. You are back again, same old, same old, without a new rationale.

For the third year in a row the administration has requested zero funding for the 7(a) program, claiming to realize a savings of $100 million for the taxpayer. That is not a savings of $100 million for the taxpayer. That is passing on all the costs to the small business borrowers and lenders. That is an increased tax on them. You come here and you tell us that you are making a savings by taxing people more. It is a pretense, it is just a shell game. It is unclear why the SBA would limit the level to $17.5 billion when people are requesting 18 billion, and the program requires no appropriation? So you pass on the cost and you still limit the level.

You are also proposing to increase fees on loans, as the chairwoman said, a million dollars or more for 7(a) working capital, 504 loans for property and equipment, SBIC venture capital programs, and these new fees will result in combined savings of only $7 million. They will impact 3 percent of 7(a) borrowers, 15 percent of 504 borrowers, and the majority of SBIC deals. These administrative fees are the first time the SBA has attempted to pass along administrative costs to lenders and small business borrowers in that field.

In addition, the pressure that puts on programs to make smaller loans is just a bad precedent, and if Congress were to go along, which I hope it will not, we will likely see another increase in administrative fees, or a larger number of those loans in coming years.

In microloans, for the third year in a row, the President is proposing to eliminate the Microloan Program and microloan technical assistance counseling, the largest Federal program solely dedicated to supporting the credit needs of the smallest businesses and self-employed entrepreneurs.

It is stunning when you look at the rate of return on that, the rate of compliance, the minimalness of loss versus gain, which is a net gain. Incidentally, you have to ask, what is the rationale? Why do that? That program serves a completely different kind of borrower. It serves a special need, and these are people that participate in the program that are not able to satisfy the minimum score of 680 to 700 required by most conventional lenders. Yet, in spite of the labeling, since its inception in 1992, the Microloan Program has had only two total losses, and the program creates one job for every $1,800 that is loaned, compared to the other loan programs which are about 15 times, 15 times as expensive.

Minority lending, I know you are going to claim you are doing a record lending to minorities, but the fact is, in the 504 program, the number of loans and dollars of loans to African Americans have stayed at a flat 2 percent, the numbers of loans to Hispanics went up only 1 percent, and the dollars stayed at 6 percent, stayed the same, and loans in dollars to Asians have increased, but the 504 loans to women, which has always been a major focus of this Committee, have decreased from 19 percent to 15 percent, and dropped from 16 percent to 14 percent in dollars. Loans to African Americans have dropped in number in the Microloan Program from 28 percent to 21 percent, and dollars have dropped from $7.1 million to $5.7 million. Loans to Asians and women are essentially flat, and so forth.

In the Disaster Loan Program—and we have gone through this—amazingly, the President's budget includes a request to increase the cost of disaster loans to homeowners and small businesses by eliminating the low-interest cap of 4 percent, and raising the interest rates on these loans after the first 5 years. Now, these loans are typically 30-year loans, so basically you are attempting to save money on the backs of disaster loan victims, no other way to describe it. That is where the savings comes. You raise the interest rates, you take away the cap that we have had in there, it is a disaster loan, disaster victims are going to pay more. I know that that will be a focus of some questions here today.

As early as December 2005, you knew, Mr. Administrator, that you had underestimated the average size of disaster loans in the Gulf Coast by one half. You knew you would be running out of money, but you did not alert the appropriators until the end of January. You did not alert out the Committee until the second week of February. I wrote to the President to express our concerns about the late notice, and urged that the administration request full funding for disaster loan so that we would not be in the same situation in April, with the program on the brink of running out of money, and we finally managed to get something done. Congress had to step in three times so far this fiscal year to prevent the Disaster Loan Program from turning away hurricane victims.

I could go on. There are other areas. I do not want to tie this all up. You know, it is stunning—and the Women's Business Centers being cut, what is the rationale for cutting Women's Business Centers? The Small Business Development Centers, which provide counseling and training for small businesses, has been at level funding since 2001, and this year you cut it, a one million dollar cut, down to $87 million. The fact is that years of level funding have eroded the SBDC network, challenging the very notion that it is possible to do more with less. In addition, the total of SBDC clients has been declining since 2003 due to those budget cuts.

I think you are on a terrific track to undo years of effort by this Committee and the SBA to grow small business in America in the most propitious fashion possible. I know you are going to be able to show, yes, sure, there are loans being made, yes, there are businesses that are still in business and they are still growing, but that is not the standard, that never should be the standard. The standard is, are we doing everything in our power that makes sense within all the limitations and choices of our budget to grow our small businesses and facilitate their lives, and help people in a disaster situation. There has always been a unanimity in this Committee, a bipartisan approach, with an understanding that we are not trying to have the Government makes these choices for people. When you look at the record at Intel and Callaway Golf and FedEx and a bunch of people who got started with loans through this effort under a different construct that you have created, we have repaid the budget of the SBA many times over in the taxes of just a few success stories alone. This is an unbelievably shortsighted, in my mind, and incomprehensible approach to the small business needs of the country.

Thank you, Madam Chairman.

Chair SNOWE. Thank you, Senator Kerry.

Senator Vitter.

OPENING STATEMENT OF THE HONORABLE DAVID VITTER, A UNITED STATES SENATOR FROM LOUISIANA

Senator VITTER. Thank you, Madam Chairman, for this important hearing on the SBA budget, and thank you, Administrator Barreto for being here.

Obviously, I guess it goes without saying, I am particularly focused on the SBA and this proposed budget with our recent disaster experience, Hurricanes Katrina, but also Rita. We always need to underscore that. There is enormous need and challenge in the Rita devastated area with all of that in mind. Certainly, I am going to work with you on this budget with all of those needs in mind.

I have to say we continue to be frustrated in the disaster area with the lack of speed and lack of efficiency in terms of getting approved SBA loans to the people that need it. It has been ramping up. I thank you for that. We have much further to go. I am looking carefully at this budget to see how it can improve that dramatically and get us there.

With that in mind, I do want to focus on one very specific issue that the Chairwoman mentioned, which I also have grave problems with, and that is the proposal to raise interest rates in the future after the first 5 years on disaster loans. I have to tell you flat out, in the present context, and with the recent experience on the Gulf Coast of last year, I really find this proposal offensive, quite frankly. I think it has no place in our continuing challenge to get needed help to those businesses.

I realize it is prospective. I realize it will not impact the immediate Gulf Coast need, but again, just as a gut reaction in light of the failure of the SBA to meet the enormous challenge, which I understand is of historic proportions unlike the SBA has ever faced, I just think that proposal in particular is offensive, and certainly unacceptable to me. With that in mind, I will certainly be proposing a budget resolution amendment to reverse that.

That is all I have, Madam Chairwoman.

Chair SNOWE. Thank you, Senator Vitter.

Senator Landrieu.

OPENING STATEMENT OF THE HONORABLE MARY LANDRIEU, A UNITED STATES SENATOR FROM LOUISIANA

Senator LANDRIEU. Thank you. Madam Chair and Senator Kerry, thank you for your really extraordinary leadership in holding the SBA's feet to the fire on the Disaster Loan Program, and particularly, the number of hearings you have called, the number of letters that you have sent, and the bipartisan leadership that you have given to this issue. Those of us along the Gulf Coast, and speaking for our constituents, truly appreciate the extra efforts that are being made.

Before Katrina and Rita hit, Mr. Administrator, Louisiana had more than 95,000 small businesses. Today the SBA is a lifeline for the 18,000 businesses that were completely destroyed in Louisiana by the storm, and the 365,000 residents that were left homeless, many of whom still are homeless in temporary, inadequate shelter throughout the country. The SBA's handling of the Disaster Loan Program, in my view, has been a disaster in itself. Loan processing delays, not enough loss verifiers in the region, consistent resistance to bridge loans—although they have proven to work in Florida, in Mississippi, and in Louisiana—consistent resistance to working in the right partnerships with banks and credit union to get loans to people more quickly.

I was hopeful, after the hearings that we have conducted and the leadership of both of these leaders on this Committee, that this budget that we are considering would reflect the lessons we have all learned in painful ways, and unfortunately, it does not. Instead of budgeting for potential staffing needs to handle future disasters, the budget cuts Disaster Loan Program staff. Does that make any sense? We have already seen how long it took the SBA to staff up to handle the workload of Katrina and Rita. Do we think we are not going to have any storms again? The hurricane season starts again in June, just a few months from now.

Back in late January, as Senator Kerry said, the SBA almost ran out of money for the Disaster Loan Program. In the midst of the worst, unprecedented natural and manmade disaster in the history of the country, we almost ran out of money in this program. I have put up a chart to express and to reiterate the timeframe of what happened along that line. As Senator Kerry said, we had to step in twice at the last minute to reprogram to keep this vital lifeline open for our businesses that want desperately to get back to work.

Given all this information, the Disaster Loan Program is too important to have come that close to going belly up. That is why the Members of this Committee, both Republicans and Democrats, are tired of what seems like SBA mismanagement and the inability to grasp the magnitude of the disaster, and its inability to be agile and flexible, to listen, to hear what is happening on the ground and make those adjustments, and as a result, many businesses in Louisiana are suffering.

One particular business that was highlighted, Hubig Pies, anybody from Louisiana has eaten many Hubig Pies. They come in all different flavors, apple, cherry, cinnamon, et cetera. Mark Ramsay, President of Hubig Pies, was on—this is one of our most outstanding businesses, 92 years in business, Hubig Pie trucks all over Louisiana, south Louisiana, Mississippi and throughout the

Gulf Coast—applied for a loan just weeks after the disaster, still had not gotten response. They went through their own sources to get that company up.

I brought the phone book in the event that this might be helpful to people that work at the SBA. Here is a whole list of businesses that were in business in Louisiana. If they want to verify if people were in business, you know, let your fingers do the walking, look right here to see if they were in business, and verify the fact that these loans need to get to these people. Without the SBA, I do not know how we rebuild the Gulf. I do not know how we rebuild it without small businesses. We do not have major Fortune 500 companies along the southern part of Louisiana and Mississippi that got hard hit. We have a few. The cluster, the backbone, the energy, the innovation, the strength, is in our small businesses.

I just want to say, Madam Chair, the hurricanes did not do us in, it was the Federal collapse of a levee system that did. These businesses paid their taxes, they paid their insurance, they paid their bills, and they have been in business for 60, 80, 90 years, and come to the Small Business Administration—never before having to need help—but come to the Disaster Loan Program and either they cannot get processed, cannot get verified, and then to pour salt on the wound, as Senator Vitter said, what they get is a recommendation to increase their rate for next year to bail out the Federal Government. Who needs bailing out? These businesses need a hand up.

Let me just end by saying that, Mr. Administrator, we do not need a cheerleader for a structure that does not work. We need a champion for small businesses in the Gulf that want to get back to work. We expect that from you. If we cannot get it, we will get someone else.

Chair SNOWE. Thank you, Senator Landrieu.

[The prepared statement of Senator Landrieu follows:]

Statement of Senator Mary L. Landrieu for Small Business Committee Hearing on the President's FY07 Budget Request and Legislative Proposals for the SBA

Thank you Madam Chair for giving us the opportunity to discuss the President's Budget request for the Small Business Administration for Fiscal Year 2007. As you know, before Katrina hit, there were more than 95,000 small businesses in my state, employing about 850,000 people – more than half of my state's workforce. The SBA helped many of these businesses get started, and I recognize the importance of business loans and technical assistance programs in helping Louisiana businesses put our people to work and stimulate our economy.

In the aftermath of Katrina, we need SBA help more than ever, especially the Disaster Loan Program. Katrina and Rita catastrophically destroyed over 18,700 businesses in Louisiana, and left 365,200 residents homeless. The Disaster Loan Program provides much needed capital to our struggling businesses and homeowners, and for many it is their only lifeline to rebuilding their lives and reestablishing their communities.

Although this program is important to my constituents and future disaster victims, it is yet another example of how the Administration's past budget cuts have hurt us in the long term. Overall SBA staffing is down 24 percent from 2001. As a result, the SBA had to hire and train new loan application processing staff, and damage verification specialists to meet the post-Katrina demands. In addition, small business people and homeowners had to suffer long delays in loan processing. I believe that we lost many businesses because of these delays.

Madam Chair, it was frankly shocking to see that the Administration in its budget is proposing to eliminate staff from SBA's disaster operations. Of all things! Learning from their initial slow response to Katrina, the SBA should be staffing up their disaster teams – not diminishing them.

In today's hearing, this Committee should not only look ahead and ensure that the SBA has the resources it needs for the coming fiscal year, but should also look back at the effects of the unprecedented disasters that occurred last Fall. It is essential that this agency, and more importantly its Administrator, apply critical lessons learned during that disaster to the upcoming hurricane season – which is only 85 days away.

SBA Disaster Program Management

Madam Chair, on March 1 the SBA announced that it had approved $5.4 billion in disaster loans for hurricane recovery – $3.36 billion in Louisiana alone. After significant delays in getting started, I must commend SBA staff for diligently picking up the pace to reach this level. But before we celebrate this improvement, I must point out that the SBA almost did not reach this milestone because back in February, the Disaster Loan Program nearly ran out of money. In the midst of one of the worst natural disasters in the history of this country, Congress had to step in at the last minute to save it.

On January 27, the SBA informed the appropriations committees in the House and Senate that it would be seeking to reprogram $100 million so that the program could operate for another two weeks until around February 13. It would need an additional $1.3 billion to keep the program running through the remainder of the fiscal year. Congress passed an emergency reallocation of $712 million in unobligated FEMA funds to SBA that will keep the program running through the end of April.

As I understand it, the problem all started in early January when SBA realized that the average size of disaster loans for Katrina was double what SBA had originally experienced in past hurricanes. In the past, the average loan size had been $32,000; the loan size for Katrina is approximately $69,000.

If I may, Madam Chair, I would like to submit a chart for the record.

[Insert chart for the record here]

Looking at this chart, it should have been obvious to the SBA that they were in trouble from day one. The average loan size for Katrina has been more than $50,000 from the earliest days after Hurricane Katrina. Given that this had been the performance all along, I do not see how the agency could come so close to running out of disaster loan funds. The SBA knew it was expecting record numbers of applications; they should have known that there would be record numbers of approvals for this disaster because the devastation was so vast. We receive daily reports with this information so they should be able to track these figures. Yet despite all of this and Administrator Barreto's promises made before this Committee for an unprecedented response, SBA did not readjust its budgeting for the program earlier on. That is the kind of mismanagement that sickens taxpayers and hurts the people who need this program.

As some of you know, much of the damage from Katrina was caused not so much by wind and the rain, but more so from the flood of water resulting from numerous levee breaks. The federal government underfunded maintenance and repairs on these levees for too long. This was just one example of government failing its citizens. SBA is another. Its poor management and deployment in the Gulf has been unacceptable. Notifying Congress 13 days before disaster loans are about to run out is likewise unacceptable. This incident does not provide me or my constituents with any confidence in the SBA's abilities to effectively administer its programs. That is particularly distressing as we enter the next hurricane season.

I would hope that Administrator Barreto would remember that those who do not study history are bound to repeat it. The SBA's disaster response to Katrina was plagued by a lack of staff to conduct loss verification and process loans, yet the FY07 budget eliminates 50 full time staff from disaster operations. I believe that the SBA is unprepared for the coming hurricane season and that the next disaster victims will, like my constituents, bear the brunt of this lack of preparation.

SBA Budget Request

Let me turn for a minute to the President's FY07 Budget Request for SBA. Like many of my colleagues, I have concerns that this budget request is, yet again, setting the SBA up for failure. While the President's FY2007 request of $624 million is an increase of $31 million over last year's initial request of $593 million. This increase in total dollars came at the expense of important programs.

The budget eliminates the Microloan, the Microloan Technical Assistance program and the PRIME program for investments in micro-entrepreneurs. These programs provide vital assistance to the smallest of businesses that cannot qualify for lending from banks.

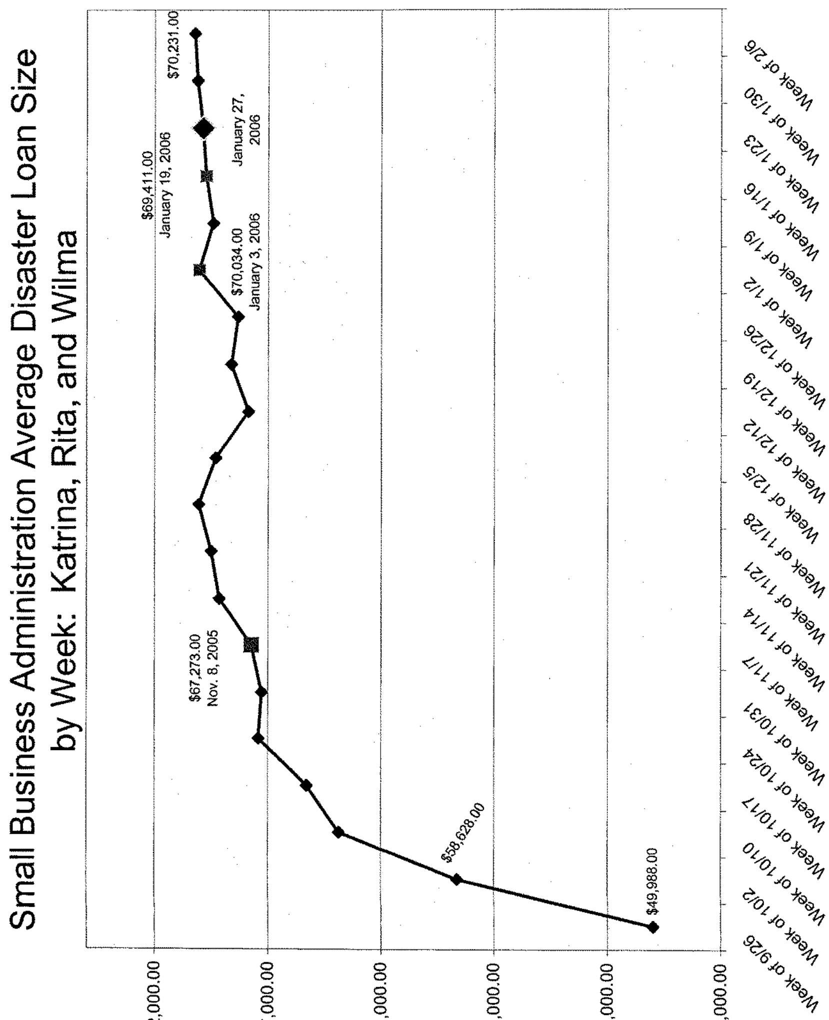
The budget hides line items for the 7(j) Technical Assistance program, the HUBZone program, the Native American Outreach program, and the U.S. Export Assistance program in the Salaries and Expenses account. This hide-the-line-item game will make it difficult to tell how much or how little is actually being spent on these programs.

The FY07 request contains substantial cuts to counseling programs that were already underfunded. Small Business Development Center grants are cut by $743,000 and Women's Business Center grants are cut by $461,000. This is unacceptable. Our Louisiana SBDC's will be vital to the recovery of our small businesses yet we are asking them to do so with minimal resources. .Many of the small business development centers in my state suffered damage in the hurricanes and their staff members have lost homes and property. While the Administration has been essentially flat-funding the Women's Business and Small Business Development centers over the last five years, their purchasing power has declined because their funding level has not kept up with inflation.

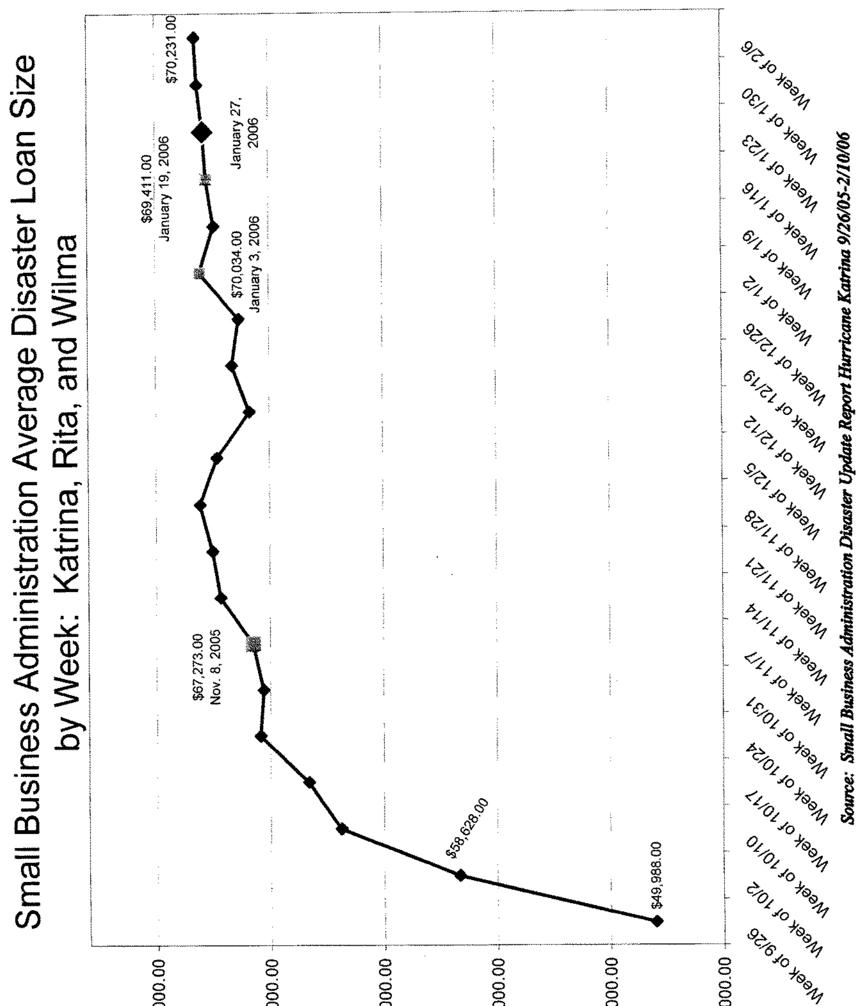
The Budget proposes an increase in the cost of disaster loans for homeowners and businesses by eliminating the low interest rate cap and raising other interest rates. So not only will future disaster victims not be able to have someone to call about their disaster loan application but they could potentially be paying more for it!

Administrator Barreto, let me end by saying that we do not need a cheerleader for a structure that doesn't work, we need a champion for our small businesses in Louisiana. If we can't get that from you, we will just have to get someone else.

I thank the Chair and ask that my full statement be submitted for the record.



Source: Small Business Administration Disaster Update Report Hurricane Katrina 9/26/05-2/10/06


Small Business Administration Average Disaster Loan Size
by Week: Katrina, Rita, and Wilma
$72,000.00
$67,000.00
$62,000.00
$57,000.00
$52,000.00
$47,000.00
$49,988.00
$58,628.00
$67,273.00
Nov. 8, 2005
$70,034.00
January 3, 2006
$69,411.00
January 19, 2006
January 27, 2006
$70,231.00
Week of 9/26
Week of 10/2
Week of 10/10
Week of 10/17
Week of 10/24
Week of 10/31
Week of 11/7
Week of 11/14
Week of 11/21
Week of 11/28
Week of 12/5
Week of 12/12
Week of 12/19
Week of 12/26
Week of 1/2
Week of 1/9
Week of 1/16
Week of 1/23
Week of 1/30
Week of 2/6
Source: Small Business Administration Disaster Update Report Hurricane Katrina 9/26/05-2/10/06

Senator Coleman.

OPENING STATEMENT OF THE HONORABLE NORM COLEMAN, A UNITED STATES SENATOR FROM MINNESOTA

Senator COLEMAN. Thank you, Madam Chair. I would second the comments of my colleagues from Louisiana in terms of what we need. My assessment is, well, a little less overall damning, but certainly in regard to Katrina, the issue about flexibility and agility, need to move quicker, is absolutely critical, and I think the overall response, the State response, the local response and the Federal response to Katrina was clearly a failure, and we simply have to do better, and so we need that greater flexibility.

I have to pat you on the back for the success of the 7(a) program in terms of the number of loans and the number of dollars. I am going to applaud your efforts at joint increase efficiencies, not a bad thing to do. I even note in regard to the disaster loans, as I understand the proposal here, it is deep interest subsidies for those in need now, but then after 5 years, when people are back on their feet, presumably, maybe we have to extend that time, maybe it has to be longer than 5 years. At a certain point in time when folks are on their feet, then they will be treated as other businesses in the same category. It seems to be pretty logical. Again, when the need is great, we have to meet the need, and then when people get back on their feet, they are treated like other businesses, and that is probably not a bad thing, maybe a timing issue here.

I do have concerns about the President's budget in regard to some very specific program. I share the concern of my colleagues about reducing, eliminating funding Small Business Development Center. I share the concerns expressed about the HUBZones, and I, in particular, share the concerns expressed by the Microloan Program. We went through this last year. I understand, by the way—I have read the rationale, I understand that the cost of the Microloan Program is significantly greater per loan than it is for 7(a) program, so 7(a) minimal costs, Microloan Program greater costs. The nature of Microloan financing is you are going to have greater costs, but these are the kind of programs we need.

I chair the Western Hemisphere Subcommittee in Foreign Relations. We are touting microloans as one of the great U.S. initiatives that should be copied throughout the world, but then at home we are not funding them, and I just think that is a mistake. I understand there is a rationale on the table. The rationale has to do with cost of processing loans, in an effort to increase efficiencies, that all Government agencies should be looking at ways to do that, but I think when you weigh it out and you look at some of these, Microloan in particular, Small Business Development Centers, HUBZones, I think we have to go in a different direction.

I think you have a challenging job. We all understand that the future, the growth of the American economy is tied to the success of small business, and Government does have a role to play here, it does have a role to play. I look forward to working with you. I do hope that we measure twice before we cut once, and if we do that, I think we will be well served.

Thank you, Madam Chairman.

Chair SNOWE. Thank you, Senator Coleman.

Senator Pryor, do you have any comments?

OPENING STATEMENT OF THE HONORABLE MARK PRYOR, A UNITED STATES SENATOR FROM ARKANSAS

Senator PRYOR. Thank you, Madam Chair. I really just have one. First, thank you for your leadership on this, and your vigilance on helping small businesses around the country.

Secondly is that we received a call yesterday into our office here that there is a woman who is dislocated from Louisiana after the hurricane, and she has been denied an SBA loan, and she needs the SBA loan in order to establish the fact that she is going back to New Orleans to reclaim her property. Otherwise, her property may be taken away from her down there. She was denied the loan from the SBA, even though her credit score apparently was fine, because she missed two payments to the IRS after the hurricane. She lost her job, lost her business, lost her home, lost everything she owned. She misses two payments to the IRS, which I think most people would understand, but nonetheless, the SBA has denied the loan.

I just bring that to your attention and to the Committee's attention because it shows sometimes how the SBA sometimes misses the forest for the trees, where they have to have all their boxes checked, and they really are not helping people that need the help the most, and certainly, we want to encourage people like this woman, Louisianian, living in Arkansas now—does not want to be in Arkansas, no offense to Arkansas—but she wants to be back home in Louisiana. She wants to get back there and get her life back together. I would like to visit with you about that when you have time.

Thank you.

Chair SNOWE. Thank you, Senator Pryor.

Administrator Barreto, please proceed. I think you can understand the depths of the concerns that have been expressed about the direction of these proposed cuts, and otherwise fees and so on, and also the response to disaster with the hurricane. I hope that we can have a discussion with respect to a variety of these issues that have been raised by Members of the Committee.

I also inform the Committee Members that we intend to vote on the Eric Thorson candidate for the Inspector General off the floor after a vote.

Please proceed, Administrator Barreto.

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

Mr. BARRETO. Thank you, Madam Chairman, 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, and related legislative issues.

Since 2001, the SBA has been on a mission, a mission to deliver more services to the Nation's small businesses as efficiently and as effectively as possible. We are proud of the SBA's successes in that quest, and the fiscal year 2007 budget reflects a continuation of this goal.

Lending is at an all-time high, more clients than ever are being served by our Entrepreneurial Development Programs, and we are improving methods to assist small businesses gain fair access to Government contracting opportunities. Many measures have been implemented to further that goal. We realize that any time that you strive to be more results driven, as President Bush has directed us, there are going to be challenges. Nonetheless, we remain keenly focused on our efforts to serve the needs of America's small businesses.

By restructuring key Agency operations and re-engineering the Agency's largest loan programs, the SBA has achieved record program growth, while reducing its total budget by 37 percent since 2001. The SBA has also improved effectiveness of the taxpayers' dollars by supporting small business development.

With these improved efficiencies in fiscal year 2007, SBA will be able to serve record numbers of small businesses with a total budget request of $624 million.

SBA lending has seen record setting growth in our Flagship Loan Program. Since 2001, the number of loans has more than doubled in the 7(a) and 504 loan programs. In fiscal year 2005, we made nearly 98,000 small business loans in our two primary lending programs, compared with only 42,000 in 2001. In 2005, minorities received 31 percent, and women received 17 percent of 7(a) and 504 dollars that we funded. The fiscal year 2007 request will support 28 billion in financing to the U.S. small business community. This represents a 42 percent business lending increase over fiscal year 2005 through the 7(a), 504 and SBIC debentures programs.

In all of these programs, SBA will be able to continue to meet the growing demand for loans in fiscal year 2007 without fear of shutdowns or caps because all three programs operate at a zero subsidy. Zero subsidy is still the best policy for promoting the long-term stability and growth of the SBA's loan programs. As you can see with our results over the last year, it has not impacted our lending.

In addition to better results, we have also increased efficiencies in lender oversight functions, loan processing and liquidating, saving the taxpayer millions of dollars. Further consolidations and efficiencies planned for 2006 and 2007 will result in additional savings.

In keeping with these savings and efficiencies, the administration is proposing an administrative fee for 7(a) and 504 and SBIC financings over $1 million. This fee will cover the cost of making these loans and will save the taxpayers $7 million in fiscal year 2007.

On the Entrepreneurial Development side of our mission, we continue to focus on making our programs more effective and efficient as well. The key to this is close collaboration with our resource partners, the Small Business Development Centers, the Service Corps of Retired Executives, which are the counselors to America's small businesses, and Women Business Centers. With the help of these partners, as well as through our extensive online resources, we provided training, education and counseling to over 1.1 million clients.

To reach new clients, SBA is encouraging our partners to utilize online development and maximize the resources we provide to them to increase capacity for outreach. We are certainly going to use technology at the SBA to the greatest extent possible to reach additional clients.

With respect to Government contracting and business development, I can report that we now have 58 Procurement Center Representatives. That is the most since the administration began, and the most in many, many years. They are assisting small business with Federal procurement issues.

SBA Office of Government Contracting and Business Development has also instituted enhanced practices and technological improvements. These have provided many benefits and increased efficiencies concerning Government contracting opportunities and monitoring. Strides have been made to maximize staff resources and monitor contracting activities, as well as to improve the communication and interaction with the small business community through the automation of many of these basic systems.

SBA's focus in fiscal year 2007, as it has been since I became Administrator, and also part of the President's small business agenda, will continue to be to work to increase small business participation and competition in the Federal procurement arena.

I would also like to speak about what is the top priority right now at the SBA, and that is our disaster response. To date, we have received an unparalleled 386,000 disaster loan applications from homeowners, renters and businesses, more than 9 times what we received after Hurricane Andrew. Approximately $6 billion in disaster loans have been approved to over 83,000 victims. Our response has been Agency-wide, not only the 4,000 people that are working in our Office of Disaster Assistance, but also it includes hundreds of staff in our district offices across the country who are helping us to process these loans. I am very proud of their hard work, of their dedication, of their compassion, and the urgency our staff is demonstrating.

The SBA has already surpassed by almost $2 billion what was previously the largest disaster response in U.S. history. That was the 1994 earthquake in Northridge, California. I remember that well. I lived in California at the time. Following that disaster, it took over a year for the SBA to process 250,000 applications. In the response to the 2005 Gulf Coast hurricanes, the SBA has already processed more than 251,000 applications in half the time.

The fiscal year 2007 budget requests funding to support $900 millon for loans to homeowners and businesses struck by natural disaster. That is an estimate based on the 5-year average. The fiscal year 2007 budget proposed to continue providing preferential loan terms to victims of disasters. However, in order to contain escalating costs of these loans, the budget proposes to adopt a graduated interest rate for the disaster loan program. Without such an action, the subsidy costs of disaster loans will increase 20 percent over this year's rate.

During the first 5 years after a disaster, interest rates will remain deeply subsidized, as they are currently structured, although the interest rate caps would be eliminated. Thereafter, rates would revert to a rate reflective of comparable Treasury instruments determined on the approval date of a loan, and still below the market rate. This structure would continue to provide borrowers with deep interest subsidies when they need them the most, immediately after a disaster, and after 5 years the subsidies would be reduced for the remainder of the loan term.

The SBA operates like the businesses that it helps to succeed, by continually meeting challenges and evaluating cost effectiveness. The SBA has succeeded in achieving record growth in its programs, while at the same time reducing the overall budget request through focused, practical implementation of the President's management agenda, the PMA, and related initiatives. To maintain these trends and build on the Agency's achievement, SBA's budget reflects a commitment to the improvement of management systems and processes, to investing in new and upgraded infrastructure, to improving the efficiency and skill level of our staff, and to continuing transformation of Agency operations.

The Agency is committed to continuing our mission and legacy, to deliver more services efficiently to the Nation's small businesses. The SBA's fiscal year 2007 budget request does just that.

Madam Chair, Members of this Committee, thank you again for the opportunity to meet with this Committee this morning. I would be happy to answer any of your questions.

Chair SNOWE. Thank you, Administrator Barreto. Let's just begin with respect to the overall decline, because, obviously, there is a disconcerting trend since 2001. Now, I understand we have to make cuts somewhere, but as I said earlier, it seems to me that Small Business is one of the areas of the Federal Government that actually generates and leverages jobs and job creation in creating new business in America. It just simply does not make sense that we are undercutting the very programs that are contributing to job growth and economic growth in America. The one value we get from one of the programs in the Federal Government is the very one that we are targeting for significant reductions.

Now, in looking at the budget request, as I said in my opening statement, and looking at the chart here in the SBA non-disaster programs, as you have seen the decline, 25 percent over the last 5 years, the last 6 years. I mean, that is significant, and then overall, 37 percent for all combined. That is non-disaster and disasters, 37 percent, 25 percent for the disaster. That is a serious decline in a budget that has never been robust, but clearly, as you can see from the figures, the 2007 request is $425 million when it comes to non-disaster, and $624 million overall, combined disaster and non-disaster. That is, I think, troubling.

Then, as you mentioned, in addition to that, which I found curious in the budget, generally on each of the programs within SBA, you talk about the number of jobs created, and for the first time those numbers have been eliminated in the budget. Is there a reason for that?

Mr. BARRETO. One of the things——

Chair SNOWE. Would you not want to elaborate and tout the value of each of these programs when it comes to job creation, and have the job creations numbers alongside the program? Now they have been eliminated in this year's budget. Why would that be?

Mr. BARRETO. First of all, let me say that I agree with you 100 percent that small businesses are the engine that fuels the economy. We talk about that all the time. Let me address all parts of that question. First of all, as I look at the budget request up there, and the comparison, one of the things that is clear to me as I look at that, is that, obviously, in 2005 and 2006, you had a number of supplemental appropriations that are included, which are not included in our 2007 request because we do not know what disasters may befall us in 2007. Right there, that is not a complete apples to apples comparison. Also, one of the things that we do not ask for are congressional initiatives, and congressional initiatives would be included in 2005 and 2006. In fact, that number has steadily gone up, and of course, we know that much of that money does not go into the programs of the SBA.

With regard to the numbers that we talk about, we classify those numbers in two ways. One is that we say the programs that the SBA provides—enable businesses to create and retain jobs, and both of those are very important to us. Oftentimes the way that we get that data is because when somebody, for example, takes out an application for a 504 loan, oftentimes they will tell us how many jobs will be created when they purchase that building or purchase that equipment. I just want to be really clear that——

Chair SNOWE. Are they providing that now, or they are not anymore?

Mr. BARRETO. Oh, they do, and I——

Chair SNOWE. What is the answer to the question? Why are those numbers not associated with the programs any more to tout the impact that they have in job creation? I think it is important for Members of Congress to appreciate the value of these programs. What better way to emphasize the contribution that these programs are making?

Mr. BARRETO. What I am trying to explain is that we take that information and make those estimates based on the information that our small businesses give to us and I would be happy to provide that because the number——

Chair SNOWE. They have traditionally been provided in the budget is the point I am making here, Administrator Barreto, and now for the first time they are not being included in the budget alongside each of the programs. It is simple as that. I am just asking the question, yes or——

Mr. BARRETO. I am happy to provide that to you, Chair, and I——

Chair SNOWE. It should have been in the budget.

Mr. BARRETO. I apologize for it not being there, because we are proud of the jobs that are retained and created by SBA programs. In fact, our Office of Advocacy, that does research on this, continues to tell us that on a year-to-year basis, the small businesses of the United States are still creating 60 to 80 percent of the net new jobs in the economy. That is an incredible success story, and that is one of the reasons that we continue to refer.

Chair SNOWE. I know. That is why I am asking as to why the budget does not include what has traditionally been part of the budget, the number of jobs that each program leverages, because it is important. It is important information for Members of Congress, and it was not part of the budget this year, and I think it is very vital.

Mr. BARRETO. I think that was an omission.

Chair SNOWE. Oversight? Okay. That is fine, and that would be great if we could get it, because I think——

Mr. BARRETO. I promise you that you will have that. We are proud of those numbers.

Chair SNOWE. It will help me and the Members of this Committee to do our job in explaining this, because, unfortunately, I do not think many Members of Congress appreciate the value of these programs, and I am not so sure many in the administration, for that matter.

Mr. BARRETO. Oh, we appreciate it.

Chair SNOWE. Because if you did, you would be doing more. It seems as simple as that. I do not know any program that gets more bang for the buck than these programs.

Mr. BARRETO. I agree, and that is why we are so proud that every year that we have been here, we have broken historic levels. I mean I think that is part of the story too that people do not talk about. We have literally doubled the number of loans in every category. We have trained millions of small businesses, facilitated billions of dollars worth of contracts.

One thing that I am very clear of when I appear in front of this Committee is that we want the same thing. We want to help more small businesses, and every year we do more than we did the year before and we break new records.

Chair SNOWE. That gets me to my next point, which we disagree with, that you are serving more with less.

Looking at the second chart here, for a Small Business Development Center in the SCORE Program, as you will see, these counseling programs, in fact, the impact of the level funding over the last 5 years has had an impact in serving less clients and fewer clients. For the SCORE Program, a difference of over 84,000 clients. Between SBDC and SCORE, 84,000 clients between 2004 and 2005. The SBA's declining budget is jeopardizing your ability to serve more clients, to help create more small businesses. I mean that is a fact. That is what is happening here. That chart illustrates it, and that is disconcerting in terms of the fact we are moving in the wrong direction, contrary to your numbers. Okay. We are getting these numbers from your budget.

Mr. BARRETO. I understand. May I explain how you got those numbers? May I explain that?

Chair SNOWE. Are you saying they are wrong?

Mr. BARRETO. No. I am saying that they are more accurate then ever is what I am saying.

One of the things that we noticed a couple of years ago is that in a lot of our programs there was a lot of double and triple counting. For example, sometimes somebody, a client, would go to an SBDC and get some service, and then they would partner up with a SCORE counselor, and they would get some service. We would treat that as two separate businesses. It was not two separate businesses, it was one business who was receiving training and counseling. One of the things that we have done is we have been a lot more precise in our counting to make sure that we are not double and triple counting.

You talked about the job numbers. It is critically important that we give you accurate job numbers, and at the same time it is critically important that we also give you accurate counts——

Chair SNOWE. You are saying it is not accurate though? I mean I am just asking because I am not clear on that. Is it accurate or is it not?

Mr. BARRETO. It is the most accurate that it has ever been.

Chair SNOWE. Okay. That means we are serving fewer clients then.

Mr. BARRETO. No. It means that before when we used to give these numbers, we used to give aggregate numbers that were double and triple counting sometimes, and we are not doing that anymore.

Chair SNOWE. I would like to see the justification and rationale.

Mr. BARRETO. Sure, I would be happy to provide it.

Chair SNOWE. I really would, because to say—then you should be clarifying, making that distinction in your budget if that is what you are suggesting. I would like to see those numbers.

Mr. BARRETO. Be happy to provide those.

Chair SNOWE. Because the numbers in your budget would very much indicate to the contrary, and that is disconcerting. It, frankly, would stand to reason. If you are moving a different direction in the budget, which is a major decrease as opposed to any increases over time——

Mr. BARRETO. It has been actually pretty level funding for the last couple of years. We are not eliminating any major programs, closing any major offices. The good news is that what I am here to tell you is that we are going to do more loans this year and more loans next year.

The real story, the real bottom line to this budget is $28 billion in lending authority, $28 billion, that is historic levels of lending authority.

Chair SNOWE. Finally, one other question here. On the proposal to increase fees in the 7(a) and the 504, you are saying that zero subsidy has had no impact. Now you are proposing increases on these major programs.

Mr. BARRETO. Let me make sure I clarify that. The fee increase we are talking about has nothing to do with the subsidy rate. It is not going to affect the subsidy rate. We are——

Chair SNOWE. I understand that. I know that. Now you are going beyond that. There is no subsidy, and now you are proposing to charge fees associated with these programs. That is a major departure and direction in terms of these programs.

Mr. BARRETO. On the million dollar loans which represent 3 percent of the borrowers, yes, we are proposing to increase that. By the way——

Chair SNOWE. It would be paid for by the borrowers or the lenders?

Mr. BARRETO. This is a fee that is going to go up to the lenders, and if it is passed on—and oftentimes they are passed on—the differential in the payment is going to be $10 a month. For a lot of small businesses that can afford a million dollars, $10 a month differential on payment for them to be able to access a loan whenever they wanted in the larger amounts is not a significant amount of difference for them.

Chair SNOWE. It is also unclear whether these fees are legal under the Federal Credit Reform Act. Do you have any idea——

Mr. BARRETO. I have no knowledge that they would not be legal.

Chair SNOWE. Because it prohibits agencies from making a profit from loan programs, so I think we will have to, obviously, evaluate that.

Mr. BARRETO. I am not sure that we would be making a profit.

Chair SNOWE. The fees vary, obviously, under the SBIC program, up to $45,000. They vary under each of these programs. Some $623 per loans. The 504 could be $11,000 for loans of maximum 10 million.

Mr. BARRETO. That would be about 12.

Chair SNOWE. SBIC was $45,360, so they vary considerably.

Mr. BARRETO. Absolutely. As I said, on the 7(a) side, again, 3 percent of the loans of all the loans that we did, are those million dollars loans. The differential payment is going to be about 8 to 10 dollars. On a 504 loan, which is 15 percent of all the loans in that portfolio over a million dollars, it would be about $12 a month differential. And, yes, you are right, on the SBIC, which is the venture capital portfolio, you are talking about loans that are much, much larger, and so the fee is going to be larger, but it is also something that can be financed. It is not something that it is going to be a lump sum differential. It is something that will be spread over the length of that loan.

Chair SNOWE. Thank you.

Senator Landrieu.

Senator LANDRIEU. Thank you, Mr. Administrator. Let me ask a couple of very specific questions about your disaster plan. You have stated in previous hearings that the Small Business Administration was conducting an unprecedented response to Katrina and Rita. Do we have on the record of this Committee a proactive disaster plan that was in place prior? A proactive disaster plan, did the SBA have one?

Mr. BARRETO. Sure. As you know, Senator, SBA has responded to every disaster in the last 50 years, and so there is a disaster model that we employ and that we execute.

Senator LANDRIEU. Is that in writing?

Mr. BARRETO. Yes, it is.

Senator LANDRIEU. Could you submit it to my office and to the Committee?

Mr. BARRETO. I would be happy to.

Senator LANDRIEU. Considering that we have learned many lessons since Rita and Katrina, and you have just submitted the new budget for next year, do we have a revised model of that?

Mr. BARRETO. That is something that we are working on right now. Let me say this, one of the things that we are very clear about, you know, SBA right now is responding to other disasters in other parts of the country. On a year-to-year basis there is, on average, about 50 disasters that the SBA responds to, from things as large as 9/11 or the four hurricanes that we had the year before.

We execute basically the same way in every one of those disasters and we have been——

Senator LANDRIEU. That is the problem. Let me just say, that is the problem.

Mr. BARRETO. I agree.

Senator LANDRIEU. Hold on, that is the problem. There are all sorts of disasters, and what we are trying to get this administration to understand in many different committees, is that not every disaster is the same.

Mr. BARRETO. I agree.

Senator LANDRIEU. A tornado coming through a town and wrecks 14 house and knocks down trees and disrupts one farm is one kind of disaster, but a disaster that puts a major American metropolitan area out of business, that is in the heart of America's energy coast, is a whole other disaster, and that is what the problem is. There does not seem to be an understanding of the magnitude of this across many different departments. It is imperative that this department understand it as quickly as possible.

My question is, I would like you to submit as soon as possible, a revised disaster management plan, in hopes that we never experience this again. Given everything we know about the hurricane season, the predictions of more storms, the importance of the coast from Maine—although they do not get hurricanes up there, they get Northeasters and very tough storms—all the way through to Texas, I think we might want to look at a revision. If you could get that for us, that would be appropriate.

Mr. BARRETO. Yes, ma'am.

Senator LANDRIEU. For loan approvals, what is the specific days—how many days does it take the SBA right now to approve business and homeowner loans under our disaster program? Do we know how long that takes?

Mr. BARRETO. I will give you an up-to-date real-time estimate. I will tell you that the velocity of those approvals, as you know, has increased significantly. It took us 90 days to do the first billion dollars. We have done 4–1/2 billion in the next 90 days. The velocity of the approvals and the processing has increased significantly.

Senator LANDRIEU. I know we are trying to go faster. The question is, are we going fast enough for the disaster that we are dealing with? That is the question, and the record reflects, according to our data—and I would like your staff to confirm this—that it takes 81 days for a business loan to be approved, and then another 21 days for closing, so that is over 100, 103 days. That might be the best we can do. I do not know. I suggest that since the recovery really begins with small business—and I know there are many complications, housing, health care, schools, you name it—but truly the small businesses of this region will help to lift this region back up. I am asking you, is there an industry standard, and is it lower than this, and if so, what can we do to expedite this timeframe?

Mr. BARRETO. I do not know if there—I would not call it an industry standard, but I think that we have our own standard from every disaster that we have ever responded to. Obviously, in this disaster, because of the scope of it, things have not gone as quickly as any of us would like to see it, but let me say this. We have now processed almost 100 percent of the economic injury disaster loans, and over 90 percent of the small business loans. I think that is very important to note. We do not have a huge backlog of small business loans right now. We put a lot of focus, a lot of resources, a lot of priority on those loans, and we are almost done processing business loans. We still have a number of homeowner loans, and one of the things that is also very important to note, we continue to receive applications all the time. In fact, the deadline, as you know, Senator, is this Saturday for physical damage, and we do not know if that deadline is going to change, but we know that we are going to get a huge spike up this week.

We are constantly receiving applications, but, a lot of the stuff that we were talking about before have already been processed. Now, you mentioned——

Senator LANDRIEU. Can I just say this, Madam Chair, and I am going to leave the record open at this point, because that is just not what we are hearing from our people at home, and there has to be some sort of meeting of the minds on this, where the Small Business Administration is saying they processed 90 percent, they do not have a backlog. Yet every time—and you have gone down and hear the same thing—we hear that there are loan applications pending, so people have just sort of given up and gone elsewhere. Now, maybe some people found help elsewhere, but that is my point. Let me leave it open and ask one more.

Chair SNOWE. I think one of the real problems is that they have been processed, but the money has not been disbursed.

Mr. BARRETO. Right, yes.

Chair SNOWE. That is 8 percent out of the $5.7 billion, 8 percent. That is $480 million.

Senator LANDRIEU. Thank you, Madam Chair, because process is different than getting money into the hands or lines of credit——

Mr. BARRETO. Yes, that is very true.

Senator LANDRIEU. Businesses can repair their roof, put their trailers next door for their workers to live, and start firing up the printers or the ovens or the manufacturing, the tools necessary to produce their products. This is a major disconnect.

My last question that my business leaders asked me to ask—and I have asked it before but I will ask it again because they keep saying, please get this answer. The GO loans, you all touted GO loans as the answer. To date, how many GO loans have we processed? 86 businesses have received GO loans. 18,000 were destroyed, 86 businesses have processed GO loans. Could we agree that at least this is not working? Could we agree that maybe we should try a different approach that some of our bankers and credit unions have suggested and that this Committee passed within 4 weeks I think of the storm? Could we try to revisit that, and agree that this GO Loan Program that has only given 86 loans to date is not working very well?

Mr. BARRETO. Can I just clarify that a little bit?

Senator LANDRIEU. Please.

Mr. BARRETO. GO loans are part of the SBA working capital loan portfolio. It is a 7(a) loan. The only thing that is different on a GO loan, because our lenders asked us to, is they said, “We would like to look at making some of those small loans, but we want you to put a higher guarantee on it.” Usually with SBA Express loans the guarantee is 50 percent, and they said, “Look, this is a different situation. We would like you to raise the guarantee to 85 percent,” and we did that.

The important thing to note, Senator, and I want to be very clear about this, is that the SBA has done about a quarter of a billion dollars in working capital loans and in our regular 7(a) loan portfolio since the hurricane, a quarter of a billion dollars. GO loans was just one tool inside of our 7(a) loan portfolio. The lenders choose which one of those that they want to use. Do they want to do regular SBA Express loans? Do they want to do GO loans? Do they want to do the larger working capital loans? Do they want to do 504 loans? They are the ones that choose which one they want to do.

Senator LANDRIEU. I understand that. Let me, on their behalf, just say they do not like the GO Loan Program. The prepayment penalties, the high interest rates are not appealing. Could we just revisit that? Thank you.

Mr. BARRETO. Absolutely. If I can also, just because I know that we are going to go on to some other questions, I do want to clarify. There is a difference between processing loans and disbursing the monies. There is a big difference, and I want to just spend 1 minute on what is happening with that.

When SBA approves a loan, the money is available immediately, subject to the borrower arranging the closing. It is up to the borrower to arrange the closing.

Now, what is the problem with the closing? First of all, this is not like any other disaster the SBA has ever responded to. Normally, when there is a disaster, even a big disaster, people are still in the general vicinity. This is something that you know very well, Senator. We have borrowers that are spread over 40 different States. It is not like we can set up an appointment and they can drive down to the office or we can go to their office and we can do the closing. A lot of the closings are happening by mail. I would not say mail. They are happening by Federal Express. That is not the whole story.

One of the requirements to be able to get a long-term disaster loan, is that if your business or home is located in a floodplain, a Federal requirement—not my requirement—Federal requirement is that you must have flood insurance, and many of these individuals are struggling to get flood insurance. Over 40 percent of the approved loans have still not been able to provide flood insurance.

That is not the only thing. These are construction loans. Some of these folks have not been told whether or not they will be able to rebuild their business, their home, whatever that they had before. They are having trouble getting permits.

That is not the only thing. Oftentimes a small business would come to us and say, “Look, I got the flood insurance, I got the building permit, but I can’t find a contractor to come and rebuild my property. I called the contractor, and he said, call me in 6 months. I don’t want to take the loan until”——

Senator LANDRIEU. Mr. Administrator, hold on a second. I do not mean to interrupt you and I want to be respectful, but I know everything. I represent the State. You are describing to me my life. This is what I live through. What I am suggesting is, you are the

Administrator of the Small Business Administration. You have thousands of businesses spread out all over America, desperately trying to get back. We would like some creative suggestions how to change the system, make it better, and work with this Committee to do that. I do not want to take any more of the Chairwoman's time, but we do not need problems, we need solutions. That is what the Small Business Administration should be doing instead of cutting budgets and raising interest rates.

Mr. BARRETO. The solution would be to waive the Federal requirement for flood insurance and the local requirements for building permits. That would be the only way that we would legally be able to disburse those monies.

Chair SNOWE. Could I just say—suggest to you? I would be interested in having a breakdown on every problem you have just suggested, so we get a true picture here.

Mr. BARRETO. Be happy to provide it.

Chair SNOWE. It says subject to SBA's approval, how many of those applications are subject to SBA's approval? How many are subject to getting an inspection——

Mr. BARRETO. They have been approved.

Chair SNOWE [continuing]. Of flood insurance. We would like to have all the information so we can deal with the actual facts.

Mr. BARRETO. Happy to provide it.

Chair SNOWE. Another point that Senator Landrieu was referring to, you have suggested rejecting over 50 qualified loan offices. I do not want to take Senator Coleman's time. I just want to get to this point—and I am going to get to it in a moment—but the fact is you have rejected 50 of them to conduct on-site inspections, 50 qualified, trained, on-site loss verification inspectors, and I do not understand that when you have 2,700 applicants that are waiting for on-site inspections. 1,200 of those applications are 42 days or older, and the average has been 57 days or older. I want you to talk about that point, her point, but I am going to go to Senator——

Mr. BARRETO. I would be happy to.

Senator COLEMAN. Madam Chairman, I have to be on the floor at 11:30, Madam Chair, so I am just going to actually make some comments and speak to the Administrator.

Two programs. You talked about in your opening statement about collaboration with partners, one of the great collaborative efforts of the Small Business Development Centers. In my State they have helped create or retain 2,000 jobs in 2005 alone. I could walk through the Federal taxes that have been paid. This is a net positive. Last year I think we funded that, supported $110 million in funding. This year I believe the administration is proposing $88 million in funding, so I have concerns about lessening of funding for a program that really is, I think, one of the hallmarks of collaboration which you touted.

Then the second issue, which a number of us have talked about again, Microloan and Microloan Technical Assistance Program, I went through in my opening statement. The bottom line is I think we are doing $300 million through USAID to encourage micro enterprises in Africa, and we are proposing to eliminate this program here at home. Big mistake, big mistake. Again, I understand. I think people looking at it with green eyeshades and cost per loan, and they are really missing the impact that this Microloan Program has.

I have to be on the floor, but those two issues in particular. Then I would associate myself with the comments of the colleague from Louisiana. Help us come up with some ways to fix the problem. I think we all understand what the problem is, but we are depending on you as the Administrator to say, "Here is what we can do." If part of it is changing, let us know, but let us sit down and figure out a way so that in the end we are not looking at what the problems are, but we are seeing people moving forward to build a brighter future.

With that, you have a very tough job. I appreciate what you are trying to accomplish and I look forward to working with you.

Mr. BARRETO. Thank you, Senator.

Senator COLEMAN. Thank you.

Thank you, Madam Chair.

Chair SNOWE. Thank you, Senator Coleman.

Is there anything you care to respond to for the record in response to Senator Coleman's comments?

Mr. BARRETO. I can provide you some responses in writing. I would be happy to talk about any of those issues.

Chair SNOWE. Senator Pryor.

Senator PRYOR. Thank you, Madam Chair.

Let me start by asking about the fiscal year 2007 Disaster Loan funding. SBA is requesting funding to support lending, almost $900 million to homeowners and businesses struck by natural disasters. Your testimony says that the request of $900 million is based on a 5-year average. However, that amount is not significantly higher than $810 million the President requested in 2006. It does not seem to be a factor that you are factoring into this, the cost of the hurricanes. It seems like we have an enormous need out there that you are not factoring in. Explain how you have come up with that $900 million figure.

Mr. BARRETO. Sure. One of the things—and I think people understand this—SBA does not have thousands of people sitting in offices all across the United States waiting for the big one. We just do not. We never know where a disaster is going to hit. Now, the way that we budget is based on what has happened in the past. We take a 5-year look-back when we are trying to calculate what it is we are going to need. What always happens when there is a disaster—and this happened after 9/11 several times, this happened after the four hurricanes in Florida—no one could have predicted that. This is happening now for Hurricane Katrina and Rita and Wilma, and it will happen again in the future. At a certain point in time when those things happen, and we do not have enough resources in hand, we must go back and ask for a supplemental.

This allows us the necessary operating funds that we are going to need to operate going forward next year. Should there be another major, major one—and I think Senator Landrieu said this, it is not even a question of if, it is when—sometime in the future there will be another major one. We will need to go back and request more money.

Let me also say that after the four hurricanes, we requested money for those hurricanes that went unspent, and we got a little criticism on that saying, wait a second, you asked for this money and it did not get spent. Why did you do that? The best barometer that we have is the look-back period, because there is no way for us to predict what is going to happen in the future. What actually happened is that money that was left over carried over into this year, and that is one of the things that helped us hit the ground running when the hurricane came, because usually, by that time, we would have been very low on funds.

Senator PRYOR. Let me see if I understand your answer then. You are basically saying that you will be relying on a supplemental? You are pretty much acknowledging to the Committee that $900 million is probably not enough?

Mr. BARRETO. There is no way to predict what is enough.

Senator PRYOR. We do know about last year's hurricane season.

Mr. BARRETO. We just cannot predict it will happen again next year.

Senator PRYOR. Do you have enough in this budget to handle the aftermath of those hurricanes last year?

Mr. BARRETO. Yes, we did. We had billions of dollars left over from the hurricanes from the year before, and we got a little criticism for that. People said, wait a second, Congress appropriated this money for you and you did not use it all up.

Senator PRYOR. I heard you say that.

Mr. BARRETO. That money carried over into this next year.

Senator PRYOR. Well, also, on the Disaster Loan funding, in February, the SBA's Disaster Loan Program almost ran out of money twice; is that right?

Mr. BARRETO. No. I do not think we ran out of money twice, but one of the things that has happened—I mentioned this before—it took us 90 days right after the hurricane to do the first billion. We have done 4½ billion in the next 90 days, and so the pace of those approvals—and I know from this Committee that it is critically important that we approve loans as fast as possible, to get the money out.

The other thing that happened, Senator, and I think it was alluded to in a prior comment, is that the average loan size for hurricane——

Senator PRYOR. I am not asking about that. Stop. You are just talking. You are just filling time. Let me ask my question.

Mr. BARRETO. Trying to explain it.

Senator PRYOR. Let me ask my question.

Mr. BARRETO. Yes, sir.

Senator PRYOR. You have kind of gone off on a tangent here. I am not even asking about that. Here is my question. As I understand it, in February, the Disaster Loan Program was in danger of running out of money.

Mr. BARRETO. We would have run out of money if we did not get reprogramming.

Senator PRYOR. That is right. As I understand it, your staff, maybe you, but your staff, your key people at the SBA, had a series of briefings with, as I understand it, Senator Snowe's staff, Senator Kerry's staff, the Committee staff generally, our Member staff that is on the Committee. We were not told about that. Do you know if that is true?

Mr. BARRETO. Well, we briefed Senator Snowe in our meeting with her as to what we were doing on the issue, and, obviously, we were working very closely with the Appropriations Committee to help to do the reprogramming.

Senator PRYOR. That is the point. Apparently, there is a letter that you sent to the Appropriations Committee, but we were not copied on it. No one on this Committee was copied on that letter, and it appears to me that this Committee is just an afterthought to the SBA.

Mr. BARRETO. Absolutely not.

Senator PRYOR. Are you saying that this Committee and its staff was always in the loop?

Mr. BARRETO. I am not sure—when you say who on the Committee was in the loop and who was not, but we did have this conversation with the Chair, and we were in regular communication with the Appropriations Committee about doing the reprogramming. Yes, that is true.

Senator PRYOR. Let me also ask this about—I want to continue on this issue of transparency with you—and that is, Senator Kerry and Senator Landrieu have sent you a letter requesting that you provide them with information on daily reporting of the funding in a Disaster Loan Program similar to what the SBA provides on loan activity and what Homeland Security provides on FEMA funding. Are you aware that you have that letter?

Mr. BARRETO. Yes, I am.

Senator PRYOR. They have requested that you start providing that information this Friday.

Mr. BARRETO. Sure.

Senator PRYOR. You will be doing that?

Mr. BARRETO. Absolutely. We are doing it already. One thing that I am very clear about is that this Committee knows what has been appropriated to us because they are involved in voting on the appropriation, and they are also receiving our daily reports of what our production is. It would be very easy to figure out how much money we have left based on what was appropriated to us and what we are producing. We will provide the information in any format, any way this Committee would like it, on a daily basis or more frequently if necessary.

Senator PRYOR. I think that Senator Kerry and Senator Landrieu have requested that. As I understand that, to be done daily, and I think that is important.

Mr. BARRETO. We are happy to provide it daily, and as I said, we are providing regular reports on our production. Of course, we know what has already been appropriated because this Committee has been involved in the voting on that.

Senator PRYOR. Let me ask this about disaster generally, because I have been to New Orleans, and I am going to tell you, you can look back at 5-year averages and all you want, New Orleans is in a class by itself.

Mr. BARRETO. I agree.

Senator PRYOR. Anyone who has been down there and seen it knows it. You have probably been down there.

Mr. BARRETO. Five times.

Senator PRYOR. I am telling you, it is in a class by itself. You all have a plan specific for New Orleans, or are you just going to sort of be generally available to the people in New Orleans if they need your help, or do you have a specific plan?

Mr. BARRETO. No. We are working in many different ways. I mentioned to you that we have already processed over 90 percent of the business loans. We have not closed all those loans yet for some of the reasons that we talked about. We have processed about 70 percent of the homeowner loans, and we anticipate that we will be completely done with our processing within the next 45 days.

On top of that, one of the things——

Senator PRYOR. Processing does not necessarily mean paid.

Mr. BARRETO. Processing means that we have gone through the application and made a determination about whether or not we are going to have to decline that loan for a variety of reasons, or whether or not that loan can move towards closing.

We are also helping people every day in our regular SBA operations. We are doing the regular loans. I mentioned to you that we have done about $250 million in regular loans. We are training people on the ground, our regular SBA office is already open back down there. We are working with our resource partners, and of course, we are trying to help businesses access Federal contracts. There are a number of efforts under way right now to help the small businesses in New Orleans, and for that matter, the whole Gulf Coast.

Senator PRYOR. Madam Chairman, I have one last question.

I mentioned in my opening statement we received a call yesterday from a Louisiananian, who is temporarily living in Arkansas until she can get her life back together and move back down there. She has been denied, apparently been denied an SBA loan because she is not current with her IRS payments. Is that consistent with this policy?

Mr. BARRETO. No, it really is not, and I would be happy to personally follow up on that. Oftentimes, there is a misunderstanding of folks of how our process works, and if there is a misunderstanding, that is our responsibility to clarify it and make sure they know exactly what the status of their loan application is.

Senator Landrieu mentioned that there was a baker who had not gotten any response on their loan. I do not know if it was the same baker that was written up in a big profile piece in the Washington Post. We went back and we researched that, and that individual never submitted a loan application. It was very difficult for us to give them an answer on their loan application when we never got a loan application. They actually admitted to us later on, well, we thought it was going to take too much time, so we did not actually submit a loan application.

Any time those situations come up and are brought to our attention, we will follow up on it and get them an answer immediately. We would be happy to work with your office and get the particulars on that individual.

Senator PRYOR. We will be in touch on that. I guess what you are saying for the record is, that because someone is late on their IRS payments, that does not——

Mr. BARRETO. That would not be a normal reason. There would have to be something much more extensive. For example, it is true that we look at judgments by the IRS. If the IRS has made a judgment on a small businessperson for prior years' activities, that is something that is factored into our decision. That is part of our requirement. There are other issues like that, but being late, you know, being current on a recent tax bill because you have been dislocated, that does not sound right to me and we will look at that.

Senator PRYOR. Thank you.

Thank you, Madam Chair.

Chair SNOWE. Thank you, Senator Pryor.

Just mentioning on the question of the supplemental, we did meet, Administrator Barreto, it was about a week from running out of money. I think the issue here is being able to be forewarned long in advance. That trend is occurring long before it actually happens. If you are running out of money in the Disaster Loan program, you must sense the fact that you need that additional lending capability.

Mr. BARRETO. Absolutely.

Chair SNOWE. The problem is that we did not find out until less than 2 weeks out from actually running out of money, and that is something that you ought to be able to establish in your office long before it actually occurs, to see the trend lines in what is happening in the demand on those loans and the need for additional money.

Mr. BARRETO. We put a lot of controls in place to do that. We are monitoring this on a daily basis, as we always have been, but we have our CFO now doing some very extensive reports and modeling to make sure that this does not happen. The truth of the matter is, as I mentioned to you before, the rate that we are approving right now, and also the average loan size, that affects how much money that we have left.

Normally, a disaster loan is about low 30s, $30,000, $35,000, and that has to do with the fact that SBA is not the only funding. Meaning they are getting money from insurance or something else. In this particular case the average loan size has been double, double what we normally see, which makes the money not go as far when you are seeing loans that are twice what the average would be for any hurricane that you have ever done before. That has to do with a lot of folks who are being told now by their insurance companies that they are not going to get anything paid because the insurance company does not consider it to be a valid claim. That is not something that we normally see, and it is something that we have to deal with, and something that we are factoring into our modeling going forward.

Chair SNOWE. Senator Thune.

OPENING STATEMENT OF THE HONORABLE JOHN THUNE, A UNITED STATES SENATOR FROM SOUTH DAKOTA

Senator THUNE. Thank you, Madam Chair, for holding this hearing.

Thank you, Administrator Barreto for coming and testifying about the fiscal year 2007 budget. If you look at SBA numbers over time, there is one thing that is very clear, and that is that you are being asked to do more, and are doing more with less. If you look at the growth in many of the programs at the same time that total budget expenditures are reducing by about 37 percent, and that is something clearly that with the budgetary constraints that we have to operate this year under, it would be nice if there were other agencies who could bring that kind of record to the table.

Obviously, we recognize that as the economy continues to grow and expand and create jobs, that most of those jobs are created by small businesses. That is the driver in this economy. It is the economic engine that keeps the economy going forward, and so it is critically important that we have policies in place that enable small businesses to continue to grow and prosper, and it seems to me at least that there are a couple of things, in talking to small business owners, that are of particular interest to them. One, clearly, is taxes and regulation, which you hear a lot about, and I think that extending or making permanent the tax relief that has been passed earlier so that small business owners will know with some predictability what their tax rates are going to be going forward, and particularly being able to pay at the lower rate is going to be critically important to their ability to invest more in their businesses by purchasing new equipment and hiring new employees.

Also, the cost of health care, which is a huge problem for small businesses, and we just have to address that. I believe we are going to get a vote on association health plans. It is a reform that many of us have supported for some time, and I am hopeful that we will be able to get a vote on that on the floor this year, and maybe finally put some of those reforms in place that will enable small businesses to join larger groups and thereby drive down the cost of their health care.

I do have a couple of questions with the budget. One, of course, that has been, I think, probably noted before I got here, some of these proposals, fee increases on loan programs including 7(a), 504 and SBIC. My understanding is that those fees are proposed on high dollar loans, and I guess I would be curious to know if you could explain how you think that will impact the demand for those types of loans. Secondly, do you see that fee increase altering the decisionmaking process for the entrepreneurs who are considering some of these programs or applying for some of these larger loans?

Mr. BARRETO. Thank you, Senator. The fee increase that we are talking about is on a very small percentage of loans. For example, in the 7(a) loan portfolio, the working capital loan portfolio, it is 3 percent of the loans that we make. The differential in their monthly payment is going to be somewhere between 8 and 10 dollars a month.

On the 504 loan portfolio, which is usually the larger loans—that is the real estate and fixed asset portfolio—you are looking at about 15 percent of the lenders fall into the category of more than a million dollars, and their differential in payment is going to be about $12 a month.

What these small businesses have told us, and what the lenders have told us, is, “Look, the main thing to us, and what we are glad that we are not facing any more, is that a couple of years ago we were always nervous that you guys were going to run out of money because you were always on this continuing resolution, and you are depending on that $100 million appropriation to be able to fund your programs." The bankers would tell us, "Look, we cannot afford for the program to be even shut down 1 day. We have millions of dollars dedicated to these programs, thousands of people working in these offices and our banks all across the country trying to generate these loans. You close the loan program for 1 day, that kills us, and if you keep doing it, we are not going to do 7(a) loans any more."

What they would also tell you is that they did not want any caps on the loan. What would happen to us, a couple years ago—and you are very familiar with the Agency. I like to brag that you used to be an SBA employee, that is, that when you put caps on those loans, that also kills the lenders and the borrowers. If you are a borrower and you are ready to take your business to the next level, and I say, "Hey, we are sorry. We are running through some budgetary problems here. I cannot do a million dollar loan. I can only do 500,000." That ruins that small business's game plan.

The main thing for the lenders and the bankers, what they have told us, is they want a consistent program. They do not want the program to shut down because we are worried about budgets, and they do not want the program to have caps on it. This differential in payment, you know, $10 a month, $12 a month, for somebody that can get a million dollars, that is not going to be a determinant whether or not they take that loan or not.

Senator THUNE. Your best guess is based on—obviously, you have a lot of data over time, loan applicants, that people who are in that, applicants who are in that range, or are asking for that sort of financing, are unlikely to be influenced in a negative way, in an adverse way in terms of whether or not they are going to continue to——

Mr. BARRETO. That is absolutely correct. The proof is also that since we have gone to zero subsidy, our loan programs are at all-time highs. The 7(a) loan program was up 30 percent last year. The 504 loan program is up 30 percent this year. All across the board, you know, a third of those loans now are going to minorities, a lot of those loans are going to women-owned businesses, which are the fastest growing segments of small business. I think we are on a good course to continue that growth.

Senator THUNE. I have one other question that pertains a little bit to my area of the country. One of the things in your statistics and the data that was provided I observed that about 30 percent of 7(a) loans and 25 percent of 504 loans were made to members of minority groups. These numbers are up substantially from previous years, which is commendable. I guess, as you know, my State has 9 Indian reservations which are in desperate need of economic development, and I am wondering if the SBA has seen increased loan volume among Native American populations, specifically? If not, what do you think we might be able to do to make that number go up?

Mr. BARRETO. There has been an increase, but, you know, I will be perfectly frank. When your level is so low, any kind of an increase is good, but there is still a lot more to do. One of the things that we have done is we brought on a full-time director of our Native American office, and I am very excited about that. This is an individual that is very well respected in the Native American community. His name is Bill Largent. He has really hit the ground running. We have had different people working in that office over the years, but to have somebody with his entrepreneurial background and the network that he has I think is going to be able to help us. He is very creative, very energetic, and I think we are going to be able to do some pretty exciting things in the Native American community.

Senator THUNE. We look forward to engaging in dialogue with him because it is an area in my State, and I would say in a broader way—and we have had some correspondence with your office—the South Dakota congressional delegation has about just increasing the presence of SBA in western South Dakota, an office in Rapid City. The reservations, the larger ones at least, fall on the western part of the State. I am very interested, obviously, in pursuing that with this office and seeing what we might be able to work together on because it is an area of our State that just desperately needs economic development. It needs job creation, and we just have to, I think, double down and figure out how we get that done.

Thank you for your testimony, and, Madam Chair, thank you.

Chair SNOWE. Thank you. I want to inform the Members of the Committee we have a 2 o'clock vote on Eric Thorson, who is the nominee for Inspector General.

In response to the question that Senator Thune raised on the loan programs, the loan programs are already at a zero subsidy.

Mr. BARRETO. Yes, they are.

Chair SNOWE. The caps and shutdowns are irrelevant to this process because we do not get any appropriations, it is not subsidized. These fees that you are recommending to be imposed on the loan programs would go towards administrative costs.

Mr. BARRETO. That is correct, that is absolutely correct.

Chair SNOWE. Caps and shutdowns are not a problem any more, not subject to appropriations.

Mr. BARRETO. I am just making the argument that the loan program has grown since we went to zero subsidy, and I think it will continue to grow.

Chair SNOWE. Well, it is a risk in imposing these fees in this direction.

Furthermore, in talking about increasing the—getting back to the Disaster Loan verification officers, as I understand it, that the SBA rejected 50 qualified Disaster Loan verification officers that had been trained and were ready to report to the Gulf region to assist with on-site inspections. Is that true?

Mr. BARRETO. I want to make sure that we clarify that. We are constantly training people. I mean, one of the reasons I think we are able to make so much progress in such a short period of time is that we brought on a significant amount of these inspectors in January. We spent all of December training them. There was a class that started at the beginning of this year. In fact, toward the end of January, we started a new class.

One of the things that has happened is that the inspectors that we have had on board have been so productive that we are very close to being done with our inspections. In fact, the people, the resources that we already have on the ground are perfectly capable of finishing the inspections that we have.

Chair SNOWE. There is still a backlog for that process, as I understand it. Maybe our figures are wrong.

Mr. BARRETO. No. I think——

Chair SNOWE. It says there are 2,700 applicants waiting for an on-site inspection of their home and business by loss verification officer. Over 1,200 of those applications are 42 days or older. The average age just for this process is an outstanding 57 days. That is the question, why would you send back 50 trained officers when you have a backlog?

Mr. BARRETO. My understanding is—and I will be happy to get you all the specifics on this—but we literally have hundreds of inspectors in the field.

Chair SNOWE. It does not matter how many you have. How many do you need? That is the issue here. We are trying to solve the problem, Administrator. We want to get it down. It is easy for us to sit here in this room in Washington in the comforts of our surroundings, but talk about the people who are trying to rebuild their lives and their businesses in the Gulf region. That is the issue here. We have to meet with haste. We have to get a tempo here.

Mr. BARRETO. Absolutely.

Chair SNOWE. The fact is, I think you would appreciate it if we could move things along.

Mr. BARRETO. Sure.

Chair SNOWE. I mean we are not talking about a normal situation here, the normal process.

Mr. BARRETO. I agree.

Chair SNOWE. We are talking about a disaster that happened last fall. Six months later they need to get it done. That is what this is all about. Let's move with a sense of urgency with respect to all of this. That is the issue here.

Mr. BARRETO. Absolutely. We are committed to——

Chair SNOWE. I do not care if you have hundreds. If you need thousands, then we have to get thousands. We have to get it done for these people who need to rebuild their lives, their homes, their businesses, and to rebuild their communities.

Mr. BARRETO. Absolutely.

Chair SNOWE. That is the issue here. Do not send any qualified officers back when you have a backlog of 2,700 applications for on-site inspections.

Mr. BARRETO. Again, I think you are referring to a trainee class, not an experienced——

Chair SNOWE. I do not know if it was a trainee class. I do not know what it is.

Mr. BARRETO. It is a trainee class that started at the end of January.

Chair SNOWE. Great. If they are now trained, let us use them.

Mr. BARRETO. I am not sure that they are completely trained. In fact, some of those individuals that you mentioned, we wanted to get them into the field. They refused to go into the field for training.

Chair SNOWE. You are going to raise a thousand reasons, Mr. Administrator. I know you are going to raise a thousand reasons.

Mr. BARRETO. Oh, now.

Chair SNOWE. You know what the bottom line is here?

Mr. BARRETO. We want to get done.

Chair SNOWE. We want to solve the problem now.

Mr. BARRETO. Absolutely.

Chair SNOWE. It is easy for you to sit there and all of us to sit here and talk about it——

Mr. BARRETO. It is actually not easy.

Chair SNOWE. Meanwhile, these people need to rebuild their lives. We have to move with the program here, and get this tempo moving. That is the issue.

Mr. BARRETO. I agree.

Chair SNOWE. In the final analysis that is what this is all about.

Mr. BARRETO. I agree.

Chair SNOWE. A thousand reasons and rationales are not going to make their lives easier. What they need are solutions, and if there is a problem, we would like to know about it on the Committee, we would like to do something about it, we would like to pave the way, and chart a course for them to get this done sooner rather than later. Saying, well, it will take another month, and then it will take a new month, think about the circumstances they find themselves in. Just think about it. We are talking about rebuilding a whole community. Eighty-five percent of the businesses in New Orleans were small businesses. You have only 8 percent of the 5.7 billion being disbursed in financing. That is a serious problem.

You can tell me a thousand reasons why it is not happening today. We want solutions.

Mr. BARRETO. I agree.

Chair SNOWE. We need solutions here, and we are more than happy to assist you in any way. We have had that conversation, but we have to get this job done for these people. I just want you to understand that. I am hearing all this stuff this morning with the whys and why nots. We need to get this done.

Mr. BARRETO. I agree.

Chair SNOWE. We are prepared to help you and assist you in any way. Do not send back verification officers. Do not send back loan officers. Do not send back anybody.

Mr. BARRETO. Sure.

Chair SNOWE. Because it is clear we need them on the ground in the Gulf region. I would hope that you understand that.

Mr. BARRETO. I am crystal clear.

Chair SNOWE. Okay, great. Finally, on imposing fees on the disaster loans, out of probably a billion dollars, we are now talking about $41 million imposing fees on 5 years beyond. Is that a new precedent? Would that be setting a new precedent?

Mr. BARRETO. I do not think the proposal is a new precedent, because my understanding is that that proposal has been made in the past.

Chair SNOWE. But has it become a reality anyplace?

Mr. BARRETO. I was not here for all those budget discussions, but I am not sure if it has become. Here is what we are saying: One of our responsibilities is to come in front of the Committee and tell you what the reality of our situation is. The bottom line is that the cost of the Disaster Loan Program, if we do not do something about it, it is going to increase about $41 million. One of the ways to mitigate that is to subsidize those future loans the first 5 years when they need it the most, and then allow the interest rate to float what a Treasury instrument would be. That by itself will close that $41 million hole.

If this Committee and Appropriations disagrees with that, then they will make that decision. I think it would have been irresponsible for us to come and say, hey, we have a $41 million hole, but we do not have any way to close that hole.

Chair SNOWE. On the Microloan Program, why is it you are recommending elimination? I know it is the third consecutive year. It creates jobs, obviously. These entrepreneurs would not otherwise access financing either because of their credit history—it is a risk, obviously, that is why they cannot secure from conventional lenders. The question is—it has been a very successful program overall. It certainly has been in my State which creates 308 jobs, and in other part of the country. It is really how you nurture a lot of entrepreneurs that may represent, obviously, because of their collateral, their business history, so on and so forth, but that there are other mitigating factors, that potentially could offer enormous possibilities for them to start a business.

In any event, why is it that you are recommending eliminating this program once again?

Mr. BARRETO. Microloans are smaller loans, under $35,000, and oftentimes those loans go to new businesses, which are oftentimes minority businesses and women-owned businesses. Some years ago, at SBA, the only small loans that it did was in the Microloan Program. That is not the case today. Last year the SBA did over 50,000 loans under $35,000, and almost 40 percent of those loans under $35,000 went to minorities, and a large percentage went to women.

Senator Coleman mentioned the cost, and there is a cost involved. It costs us almost a dollar for every dollar that we lend out in that program, and at the same time, in our Flagship Loan Program, the 7(a) loan program, it costs us one third of one cent for every dollar that we facilitate through there.

On top of that, SBA is not the only microloan program. By the way, SBA did about 2,500 microloans nationwide. At the same time that we were doing 53,000 7(a) loans of that size, we did 2,500 microloans nationwide. The truth of the matter is that there are many microlenders in the United States. We did a survey, and there are about 400 microlenders in the private sector. Many of those are nonprofit, who do a much better job, and are much less expensive than our program. Every year we come and we let you know that.

Now, as you have mentioned, Congress has disagreed with us, and we understand that, but we think that that is something that we need to bring to your attention and let you know, at least the good news, which is that we are doing 52,000 of those loans in our regular Flagship Loan Program.

Chair SNOWE. Now, how many of these microloans would be able to access 7(a)?

Mr. BARRETO. Those were all 7(a).

Chair SNOWE. How many would be able to be eligible if you did not have the Microloan Program?

Mr. BARRETO. You are talking about the microlenders? I do not know. I would have to see what each of those 2,500 cases are. I am sure that a microlender customer is probably different in Maine, as it is in Texas, as it is in California, so we have to look at that. As I said, many of the people that we are making loans to are very new businesses, businesses with very little track record, minority businesses, women-owned businesses, that is who are getting a large share of those SBA Express loans.

Chair SNOWE. The uniqueness of the microloan is that they cannot access other conventional lending. The point is, how many would be able to secure a loan under the 7(a) program if the Microloan Program did not exist?

Mr. BARRETO. What we like to tell small business people that come to us, because a lot of small business people actually are entrepreneurs——

Chair SNOWE. The point is 7(a) lenders say none. That is the point. They are saying none. That is the issue here.

Mr. BARRETO. Our job is to get them ready to be bankable.

Chair SNOWE. I understand, but these are otherwise—you created 308 jobs in Maine, for example. I do not know what the total numbers are across America, but it has worked very well in Maine, because 62 different enterprises were able to benefit from the Microloan Program. The question is, how many of those who benefited from the Microloan Program would be able to benefit under the 7(a) program? The 7(a) lenders are saying none.

Mr. BARRETO. I do not know what they base that "none" on because I am sure that they do not know all 2,500 of those microloan customers, but we would have to take a look at that on a case-by-case basis.

Chair SNOWE. The point is, you are losing capability there. You are denying a capability for small businesses to start up be accessing microloans because of their credit history, collateral or their business history, something that represents a risk to conventional lenders but on the other hand there are other factors that sort of mitigate. That is the point here.

Mr. BARRETO. We do a lot of those kinds of loans that you are referring to in our Community Express Loan portfolio. Actually, we do twice as many Community Express loans than we do microloans, and a lot of those same cases that you are referring to.

Chair SNOWE. Senator Pryor.

Senator PRYOR. Thank you, Madam Chair.

Let me just follow up in that same line that you were asking there about microloans, but let me just change the area of the budget just slightly, and that is, Small Business Development Centers. I am sure, as in Arkansas, Maine has had some very positive success with Small Business Development Centers. They help small business clients. In fact, last year, 2004, they helped more than 16,000 new businesses get going, created more than 74,000 new jobs. They saved 80,000 jobs in 2004. At the same time, Small Business Development Centers helped generate $234 million in Federal revenue, and that resulted in economic growth. It was $234 million in Federal revenue. All that with a Federal investment of only $88 million.

To me, that is a very good return on Federal tax dollar investment. It has a positive ripple effect around the country.

However, when I look at your budget this year, you are cutting, I think, it is $743,000. It is a modest cut, but nonetheless, you are cutting that program. If anything, if you adjust for inflation, it might be more than that in relative dollars, but if anything, it would seem like we would be putting more money there and trying to stimulate the economy. Again, we have talked about in this Committee many times already today, that small business really is where the action is in the U.S. economy.

Why not—I am not saying double the money—but why not add money to this program and spur the economy, and have a positive ripple effect? Why are we cutting that?

Mr. BARRETO. I do not know that we are cutting the program. We have actually been asking for level funding for that program for some time now, but there was a congressional rescission last year across the board that affected all of these programs. I think that is where that $743,000 comes from. I think it was a one percent rescission, and that is what brought that down.

One of the other things that I think is very important to note, Senator, is I kind of think of that program as a $200 million program, not an $88 million program. The reasons I say that is because, as you know, what the Government basically does is that they provide money, an investment, if you will, to those SBDCs, which they leverage, which is a great thing. They match every dollar that we give to them. It is not an $88 million program. I mean just a one-on-one match would be about $176 million, but many SBDCs also raise money from other sources as well. They do an incredible job.

What we have seen is that they are very focused on increasing the number of people that they are providing training and counseling on. We work very closely with them. We have a very good relationship with them. We participate in a lot of their national events, and host them at our offices often. I think the key thing is that we have been asking pretty much for flat funding for that. The rescission you brought it down, $800,000, and then again, remember that they leverage the dollars that we give them.

By the way, they have to. SBA cannot just give them money if they do not have that match already lined up.

Senator PRYOR. Why are you asking for flat then? Why are you not asking for an increase?

Mr. BARRETO. Obviously, what we have seen in the budget, what we are presenting is, that it is a tight budget. It has been a tight budget for us for the last couple of years. We believe that it is fiscally responsible, but it still allows us to accomplish the things that we have been talking about doing. I think it would be very difficult for me to come in front of you and say, “We are asking for less money, and by the way, last year I did less loans, and I guaranteed less dollars unless people had access to training, and forget about Government contracting. Government contracting has gone way down.” That is not what has happened, and that is not what I believe is going to happen this year or next year or in the years to come for the SBA.

I think we have a much more agile model. I think we are a lot more entrepreneurial. I think we have a lot of partners now that help us to accomplish our mission.

Senator PRYOR. Thank you, Madam Chair.

Chair SNOWE. Thank you, Senator Pryor.

Just one final question, Administrator. On Government procurement, you mentioned that the current number of SBA Procurement Center representatives are 58, which is more than ever before.

Mr. BARRETO. Yes, ma'am.

Chair SNOWE. Although——

Mr. BARRETO. More than ever before for us.

Chair SNOWE. Oh, okay. A point of clarification.

Mr. BARRETO. In our tenure.

Chair SNOWE. Okay, in your tenure. So you understand that.

Mr. BARRETO. I think that 20 years ago or something there was probably a lot more of them.

Chair SNOWE. Well, I guess 7 years ago, 1993, actually. The GAO submitted a report to this Committee in 2000, indicating in 1993 that SBA had about 58.

These representatives obviously have an enormous challenge in reviewing the Federal contracts in the contract centers, which are now at 2,250, as I understand it. Is that correct, procurement centers, SBA?

Mr. BARRETO. I would have to verify that number.

Chair SNOWE. Since 1993 the volume of Federal contracts has doubled to 300 billion. I think that the point is here, that these representatives, their volume of contracts has more than doubled over the last few years, and this trend has a major impact on small businesses, small contractors, as you well know, because we know that many of the agencies are not complying with the requirements, and small businesses are being overlooked, and larger contractors are accessing these contracts, or representing themselves as small contractors. Here we have 80 percent of the potential bundled contracts not being reviewed due to the lack of these Procurement Center representatives, according to the Inspector General's report within the SBA.

That is a major problem. What can we do to alleviate this problem? Obviously, I think we need more representatives without question, but there is something much beyond that.

Mr. BARRETO. We have hired more than we had before. By the way, just to put this in perspective, we have them report to us, and we monitor their activities. These 58 PCRs are covering 255 of the major buying activities, the major procurement activities, and that represents $200 billion of the Federal procurement. In other words, 75 percent of that $300 billion is being right now covered by these 58, and the reason is, as you know, that there is a lab or some other major procurement entity, where a tremendous amount of contracting is occurring, and we will have PCRs that are dedicated to that.

We are looking at different ways. One of the things that we have talked to this Committee about is to use technology for these folks. If you have this great tool called technology, you should be able to use it so that you do not necessarily have to have a physical body driving someplace to be in communication or relationship with these. We are working on an electronic procurement center representative program. We should have that online definitely by the 2007 budget, and we are working very closely with these other agencies to make sure that we are doing everything that we can to—a lot of the examples of these contracts that may be going to a large business, I think there is a lot of misinformation about that. We have done a review.

I had a meeting with the IG this week on this issue, and a lot of times it is not because the business did anything wrong. Sometimes it is because a lot of these procurement officers have never been trained on small business procurement. You have people in agencies that are doing small business procurement that have never had any training on small business procurement. There is a lot of miscoding, or sometimes there is a situation where a small business gets a contract, but then over a period of time grows, and they outgrow that size standard. Or sometimes that small business gets bought by a larger entity, and then somebody will say, well, the larger entity took a contract away from a small business. No, they did not. They bought a small company that had a small business contract.

By the way, we think it is a good thing when small businesses grow, and oftentimes if they grow too big they will exceed the size standard. That is a good thing. Or if they grow so big that they decide to sell their business, that is their decision. That is not a bad thing.

We know that there is more work to be done. We need to work even closer in concert with these agencies to make sure that we are minimizing contract bundling, and we need to make sure that these PCRs have all the tools that they need, electronic and otherwise, for them to continue covering the majority of procurement opportunities in the Federal Government.

Chair SNOWE. I think we need more, obviously. That is what the Inspector General's report indicated, that 80 percent of the bundled contracts are not being reviewed because of the lack of these representatives, and of the 58, 5 are down in the Gulf region. It is clear to me that you need far more to address this problem. We have to get to the bottom of it. I am just surprised that you would not have recommended more representatives.

Mr. BARRETO. Well, we have more now than ever before, but——

Chair SNOWE. I know, but that does not solve the problem. It may well be, relatively speaking, but it is not solving our problem and so we have a huge problem. I know it does not match up.

Mr. BARRETO. As you said, the problem keeps getting bigger because Government keeps buying more and more. When I first started, Federal Government was buying about $200 billion. Now it is buying $300 billion.

Chair SNOWE. That is exactly right, and small business is being left behind. That is the key issue.

Mr. BARRETO. Last year the Federal Government bought $69 billion from small business. That was about 23 percent. By the way, that was the second year in a row that we hit 23 percent. I do not think that has ever happened before. I do not think we have had

2 consecutive years, as I understand it, where the Federal Government did 23 percent, but we got 23 percent the year before last, we got 23 percent last year, and obviously we are working hard to make sure we get 23 percent this year.

Chair SNOWE. Eighty percent of the potential bundled contracts are not being reviewed. That is the point. 80 percent is a very high figure. That is the point. We need more. Maybe we have more than ever before, but we certainly need a greater number than exists today, and especially where you have 5 down in Gulf region, so that leaves you with 53.

Mr. BARRETO. We are trying to focus attention on the Gulf and make sure that——

Chair SNOWE. That is fine. Obviously, I do not dispute that, I do not question it. The point is, you need more. 58 is not sufficient. There is a gap in coverage now, but there will continue to be in the future, because, obviously, this 80 percent did not occur recently. It has been over time, and so, obviously, even before the hurricanes. We have a problem there, and I hope that we can work to address it.

Mr. BARRETO. Sure.

Chair SNOWE. I want to just thank you for your testimony.

Mr. BARRETO. Thank you, Madam Chair.

Chair SNOWE. We will be working with you, Administrator. Obviously, there are a number of issues. You have heard them here today, with a variety of Members of this Committee, but we want to make sure that you continue to have the resources you need to address the immediate of what is occurring in the Gulf until we can complete our responsibilities and obligations, and it is really critical that we discharge them to the best of our ability, and to make sure that those who want small businesses' resources and assistance, that they get them, and that is what it is all about.

The record for this hearing will remain open for an additional 2 weeks until noon on March 23rd. In addition, any written questions for the Administrator must be submitted to the Committee by noon on March 16th, and we will forward them to Administrator Barreto for written responses.

Again, I just want to thank you, Administrator Barreto for being here.

Mr. BARRETO. Thank you.

[The prepared statement of Mr. Barreto follows:]

TESTIMONY OF

ADMINISTRATOR BARRETO

SENATE SMALL BUSINESS

AND

ENTREPRENEURSHIP COMMITTEE

THURSDAY, MARCH 9, 2006

Madam Chair, Ranking Member Kerry, members of the Committee, thank you for inviting me here today to discuss the President's FY 2007 budget requests for the Small Business Administration (SBA) and related legislative issues.

Since 2001, the SBA has been on a mission to deliver more services to the nation's small businesses. We are proud of the SBA's success in that quest and the FY 2007 budget reflects a continuation of this goal.

Lending is at an all-time high, more clients than ever are being served by our Entrepreneurial Development programs, and improved methods to assist small businesses gain access to government contracting opportunities have been implemented. These accomplishments have had challenges, but we have met the challenge to better serve the needs of American small businesses.

By restructuring key Agency operations and reengineering the agency's largest loan programs, the SBA has achieved record program growth while operating more efficiently and reducing its total budget by more by 37% since 2001. The SBA has improved the effectiveness of the taxpayers' dollars supporting small business development.

With these improved efficiencies in FY 2007, SBA will be able to serve record numbers of small businesses with a total budget request of $624 million.

Capital Access

SBA has supported record setting growth in small business lending. We have significantly increased our loan volume since 2001, more than doubling the number of 7(a) and 504 loans funded. In FY 2005 nearly 98,000 small business borrowers received financial assistance through 7(a) and 504 loan programs, compared to only 42,000 in FY 2001.

The FY 2007 request will support $28 billion in financing to the U.S. small business community. This represents a 42% business lending increase over FY 2005, through the 7 (a), 504, and SBIC debentures program. For the 7(a) program, the $17.5 Billion is a 22% increase over our final FY 2005 lending level and 38% more than FY 2004. Lending to minorities increased by 23% and loans to women-owned businesses was also up by 39% during that same period.

Approximately 40% of 7(a) loans are under $35,000, going to America's "mom and pop" businesses, making the costly Microloan program unnecessary. The Microloan program costs $0.95 for every dollar loaned in FY 2005 compared to the 7(a) program which cost 1/3 of one cent for every dollar loaned. Through the 7(a) program alone, we plan to guarantee loans to approximately 98,000 businesses in FY 2007.

We are also requesting a $7.5 billion 504 program level, a 50% increase over FY 2005 and an SBIC Debenture program of $3 billion. Through all of these programs SBA will be able to continue to meet growing demand for loans in FY 2007 without fear of shutdowns or caps because all three programs operate at zero subsidy.

Zero subsidy is still the best policy for promoting the long term stability and growth of SBA's loan programs. This funding structure is having a positive effect on SBA lending. Because of the current fee structure, the programs are stable, self-supporting and free from the volume limitations imposed by a finite annual appropriation. As a result, small business borrowers can access credit through the SBA without having to worry about temporary loan limits and periodic shutdowns caused by appropriations shortfalls.

With an outstanding guaranteed and direct loan portfolio approaching $70 billion, SBA has a critical role as a steward of the taxpayers' dollars. In addition to increased efficiencies in lending processes we have improved our lender oversight functions - allowing us to not just operate leaner, but smarter.

We have been able to reach milestones of service delivery through more streamlined and efficient processes such as consolidating 7(a) loan liquidation functions from almost 70 district offices to a single location. Consolidating the loan liquidation functions reduced costs by $25 million from $32 million in FY 2003 to $7 million in FY 2005.

The result of the implementation of efficiencies is that the cost of funding a 7 (a) loan dropped from $3,923 in FY 2001 to $559 in FY 2005 - an 85% drop. The cost of funding a 504 loan decreased to $1,581 in FY 2005 from $3,101 in FY 2001 - a 51% decrease. The SBA will continue to be good stewards of taxpayer money in FY 2007. Through further consolidations and efficiencies planned for FY 2006 and 2007 will include annual savings of $5 million by FY 2008 for rent. Future plans to centralize 7(a) loan processing and 504 and Disaster loan liquidation will provide additional efficiencies.

In keeping with these savings and efficiencies the Administration is proposing an administrative fee for SBA's 7(a), 504 and SBIC loans over $1 million. This fee will cover the cost of making these loans. Only 3% of 7 (a) borrowers will be affected, while taxpayers will save $7 million in FY 2007.

SBA is also seeking ability to cover subsidy expenses through new fee authority to cover subsidy expenses for pools of 7(a) loans sold in the secondary market and for administrative expenses for oversight of Certified Development Companies in the 504 loan program. We are not presently proposing a specific secondary market fee for this purpose, but support granting SBA the statutory authority to charge such fees in the future would eliminate the chance of a program shutdown.

The President's FY 2007 budget reflects the same commitment to successful lending programs that have been attained since 2001.

Entrepreneurial Development

The Office of Entrepreneurial Development manages a strong distribution network of service centers for small businesses across the country. The services offered include assistance in preparing business plans, loan applications, procurement assistance, marketing plans, export advice, and competitive assessments.

SBA serves these clients through our three resource partners: Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), and SCORE. In FY 2006, our resource partners trained and counseled over 1.1 million clients. In addition, since 1994 the Office of Native American Affairs (ONAA) has worked to address the unique needs of America's First People. SBA provided almost $1 million in grants under the Drug Free Workplace program. The Agency will continue to promote these grants through our partners.

We continue to focus on making our ED programs more effective and efficient. As part of our strategic planning process, we sought to identify the characteristics of the small business owners of the future.

Next, we focused on ensuring that all of our counseling programs use the same performance measurement system. We now have consistent definitions across all programs for counseling sessions, information transfers, online counseling, and training.

To collect this information, we updated and revised our Management Information System. We have successfully completed the first comprehensive collection of data using standardized definitions across all programs, using the EDMISII system which will allow us to perform an analysis of services provided to clients and of client demographics.

To reach new clients, SBA is encouraging our partners to utilize online development and maximize the resources we provide them to increase capacity for outreach.

SBA and SCORE have pioneered online counseling. Approximately 34% of SCORE total counseling is done online. The Office of Entrepreneurial Development has been a leader in pursuing the use of the internet to expand its products and services. In addition, 311,000 clients registered for our 23 online courses through our Small Business Training Network and 1.04 million accessed the SBA website. SCORE has indicated that a combination of on-line and face to face counseling is the most effective approach.

In addition to the programs offered through the SBA Office of Entrepreneurial Development, in July 2004 the President announced the creation of a the Urban Entrepreneur Partnership (UEP). This is a public-private partnership between the Administration, the Business Roundtable, the Ewing Marion Kauffman Foundation, and the National Urban League called the Urban Entrepreneur Partnership (UEP). The UEP combines the resources of the private, public and non-profit sectors in order to expand entrepreneurship and jobs in historically neglected or economically underperforming urban areas. Among specific actions undertaken by the UEP, it opened of an office in the Gulf region to help position minority-owned businesses for opportunities related to the rebuilding of Gulf Coast communities following the devastation of Hurricane Katrina and Rita. In addition, centers have opened in Kansas City, Cleveland, and Jacksonville. There are plans to open in Atlanta, Cincinnati, Milwaukee and Baltimore this year. The SBA has become an active supportive partner in this initiative.

Government Contracting

SBA's Office of Government Contracting and Business Development has 58 Procurement Center Representatives (PCRs) -- more than ever before -- assisting small business with federal procurement issues. In Fiscal Year 2004, small businesses received contract awards totaling a little over $69 billion of the approximate $300 billion in total federal contract awards.

SBA's Office of Government Contracting and Business Development has also instituted enhanced practices and technological improvements. In FY 2006, the SBA developed a different approach to Agency goaling to bring more transparency to the process as well as recognize the variances in procurement requirements among Federal agencies. Technological improvements have provided many benefits and increased efficiencies concerning government contracting opportunities and monitoring.

Strides have been made to maximize staff resources and monitor contracting activities, as well as to improve communication and interaction with the small business community through the automation of many basic systems. Systems include the Electronic Subcontracting Reporting System (ESRS), the 8(a) application and annual review process, the HUBZone Procurement Query and Reporting System, as well as the Central Contractor Registration, the Federal Procurement Data System - Next Generation (FPDS-NG), and Tech Net among others. As technology is ever changing and improving, so are the efficiencies enhanced by using these E-gov systems.

The added benefit of these technological advances is apparent in the business matchmaking efforts following the Gulf Coast Hurricane disasters. SBA's field resources were focused on providing procurement opportunities for these small businesses. Over 500 businesses registered for these procurement opportunities in the Business Matchmaking database were certified as able to compete for Federal procurements. Electronic notifications with updates to the projects, and follow-up calls were made by SBA procurement professionals who provided further assistance. Each firm has had its profile uploaded to the GSA electronic notification system to receive electronic alerts of procurement opportunities. Each firm is eligible to participate in the Business Matchmaking Online. Of the $1.6 billion in "Katrina" Federal contracts entered into the

FDPS-NG, $1.1 billion was awarded to small business, over $750 million to local businesses.

With the successful launch of the Electronic Subcontract Reporting System (eSRS) in October, 2005 more than 700 contractors have filed approximately 5,000 reports. This system replaced the paper forms that prime contractors submitted to report on their subcontracting. Enhancements to the system to be implemented at the beginning of FY 2007 will allow SBA to determine which contractors are, and are not, meeting their goals for Small Business, Small Disadvanted Business, Women-owned, HUBZone, veterans and service-disabled veterans.

In FY 2007 SBA will continue to work to fair and open access in the in the Federal procurement arena.

Disaster Assistance

SBA's Office of Disaster Assistance has met the challenges brought by Hurricanes Katrina, Wilma and Rita. Flooding and debris prohibited access to damaged or destroyed property, delaying loss verifiers' ability to assess damage for weeks after Hurricane Katrina. Victims being scattered across the United States after evacuation has made the process even more difficult. The unparalleled number of applications reached over 383,000, more than 9 times Hurricane Andrew. Our response has been Agency-wide, from the 4,200 people working in our Office of Disaster Assistance to the hundreds of staff in our district offices across the country who are helping to process loans.

SBA has already surpassed by more than $2 billion what was previously the largest response (in dollars approved) in its history, the 1994 Northridge Earthquake in California. Following that disaster, it took one year to process 250,000 applications received. In its response to the 2005 Gulf Coast hurricanes, SBA has processed more than 251,000 applications in only six months. More than 86% of business disaster loan applications and 97% of Economic Injury Disaster Loan applications received to date have been processed. More than 270,000 damaged properties have been inspected.

Unfortunately, throughout the course of a "normal" year numerous other natural disasters occur. The FY 2007 Budget requests funding to support $900 million for loans to homeowners and businesses struck by natural disaster, an estimate based on the 5 year average.

The FY 2007 budget proposes to continue providing preferential loan terms to victims of disaster. However, in order to contain escalating costs of these loans, the Budget proposes to adopt graduated interest rates for the Disaster loan program. Without such action the subsidy cost of disaster loans will increase 20%, over this year's rate.

During the first five years after a disaster, interest rates will remain deeply subsidized, as they are currently structured, although the interest rate caps would be eliminated. Thereafter, rates would revert to a rate reflective of a comparable Treasury instrument determined on the approval date of the loan, still a below market rate. This structure would continue to provide borrowers with deep interest subsidies when they need them most – immediately after a disaster – and after five years the subsidies would be reduced for the remainder of the loan term. The total savings to the taxpayer of this change will be $41 million in FY 2007. This change would start for disasters occurring after September 30, 2006, and will not affect loans for Hurricane Katrina.

Continued Management for Success (conclusion)

The SBA operates like the businesses it helps to succeed by continually meeting challenges and evaluating cost effectiveness. The SBA has succeeded in achieving record growth in its programs while at the same time reducing the overall budget request through focused, practical implementation of the President's Management Agenda (PMA) and related initiatives. To maintain these trends and build on the Agency's achievements, SBA's budget reflects a commitment to:

> Improving management systems and processes to ensure continued adequate stewardship of our resources;

Investing in new and upgraded infrastructure to continue benefiting from efficiencies;

Improving the efficiency and skill level of our staff through training, organizational realignment, and better human capital management strategies; and

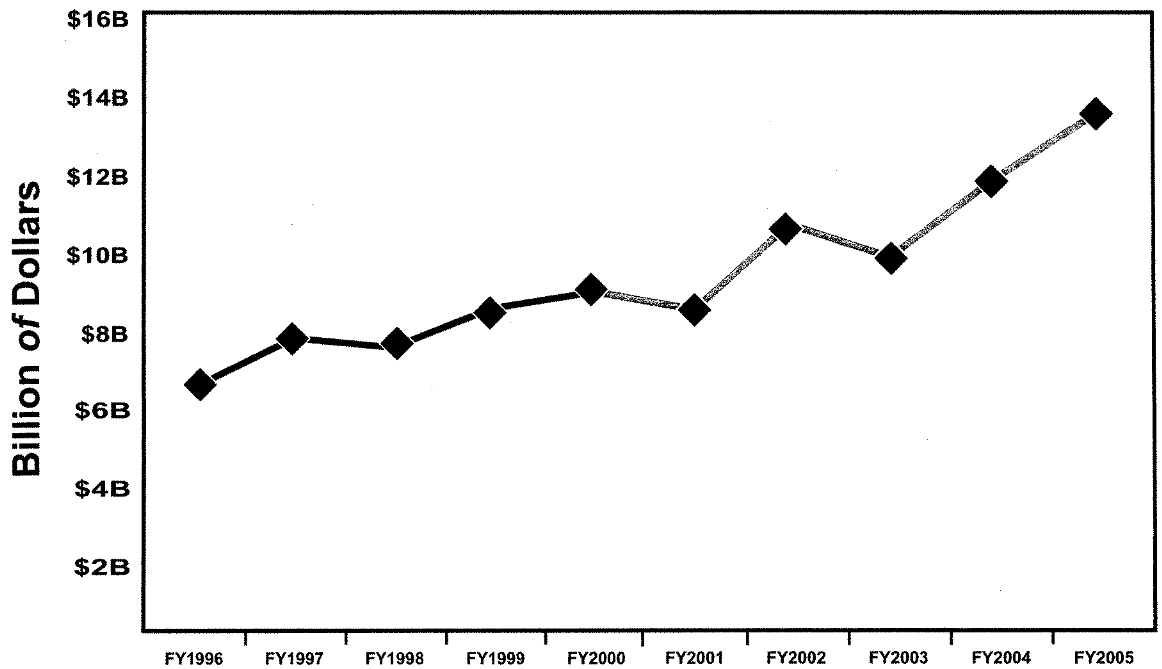
Continuing transformation of Agency operations.

The agency is committed to continuing our mission and legacy to deliver more services efficiently to the nation's small businesses. The SBA's FY 2007 budget request does just that.

U.S. Small Business Administration
SBA
Your Small Business Resource

7(a) Net Loan Approvals (Dollar)

(As of COB 2/28/06)



U.S. Small Business Administration
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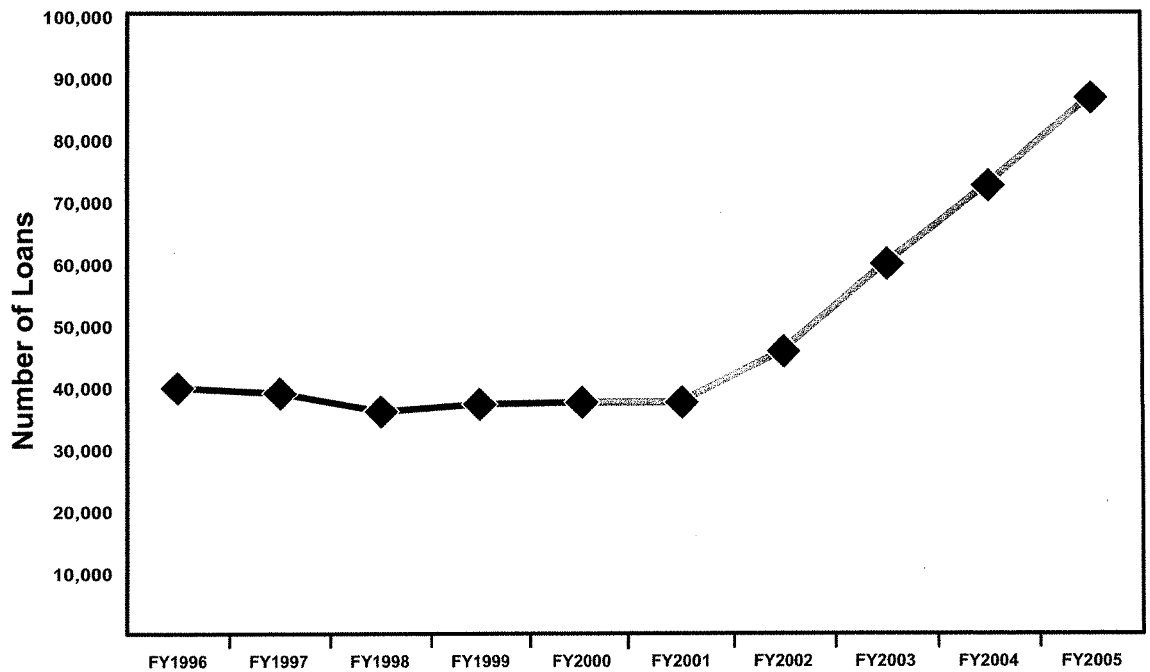
7(a) Net Loan Approvals (Number)

(As of COB 2/28/06)



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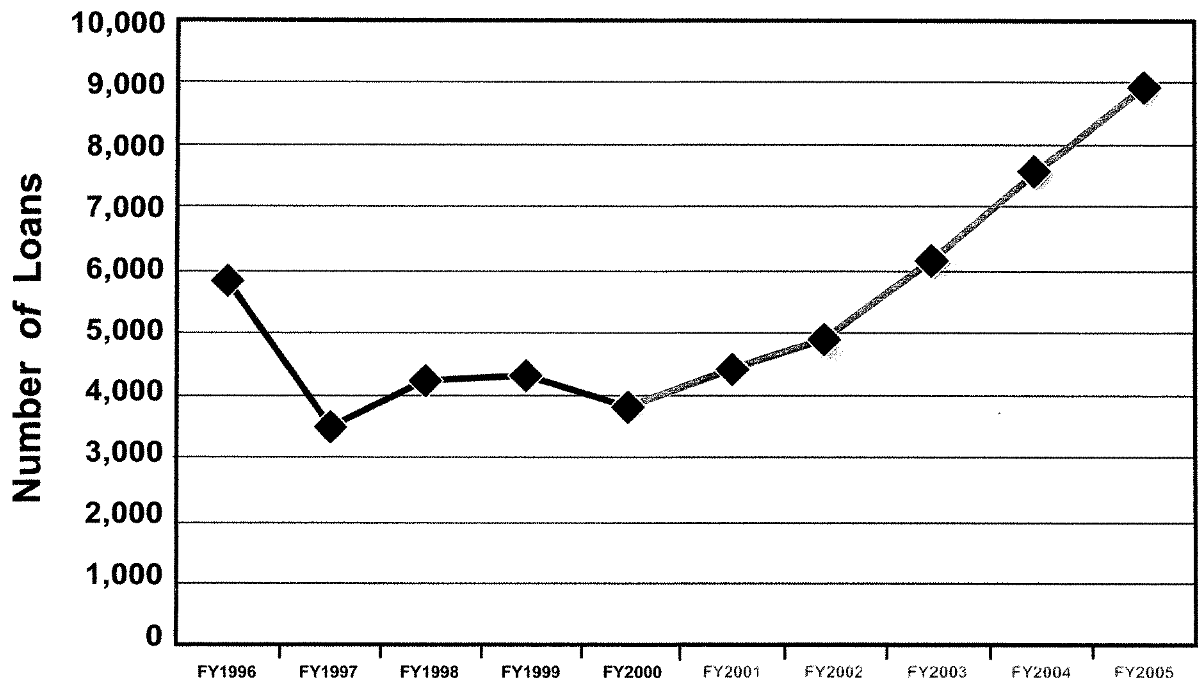
504 Loan Approvals (Number)

(As of COB 2/28/06)



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Home Loans vs. Business Loans

Impact of Raising Disaster Interest Rates for No Credit Elsewhere Borrowers after Five Years to Treasury Rates
(As of COB 2/27/06)

	Home Loans	Business Loans
Interest Rate-Current Law-(No Credit Elsewhere Rate)	3.25%	4.00%
Average Monthly Payment-Current Law	$111	$418
Interest Rate after 5 Years-Proposal	5.43%	5.43%
Monthly Payment after 5 Years-Prosposal	$125	$448
Increase in Monthly Payment after 5 Years	$14	$31
Percentage Increase in Monthly Payment	13%	7%

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History of Loans and Fees

(As of 3/3/06)

Actual Fee Levels	504 Fee Levels:	SBIC Debentures:	7(a) Borrower Under $150,000	7(a) Borrower $150,001-$700,000	7(a) Borrower $700,000 +	7(a) Lender
2000	0.60%	1.00%	2.00%	3.00%	3.50%	0.50%
2001	0.47%	0.88%	2.00%	3.00%	3.50%	0.50%
2002	0.41%	0.87%	1.00%	2.50%	3.50%	0.50%
2003	0.43%	0.89%	1.00%	2.50%	3.50%	0.50%
Oct-April 2004	0.39%	0.86%	1.00%	2.50%	3.50%	0.25%
June-April 2004	0.39%	0.86%	1.00%	2.50%	3.50%	0.36
2005	0.44%	0.87%	2.00%	3.00%	3.50%	0.50%
2006	0.34%	0.94%	2.00%	3.00%	3.50%	0.545%
2007* (Projected)	0.16%	0.91%	2.00%	3.00%	3.50%	0.55%

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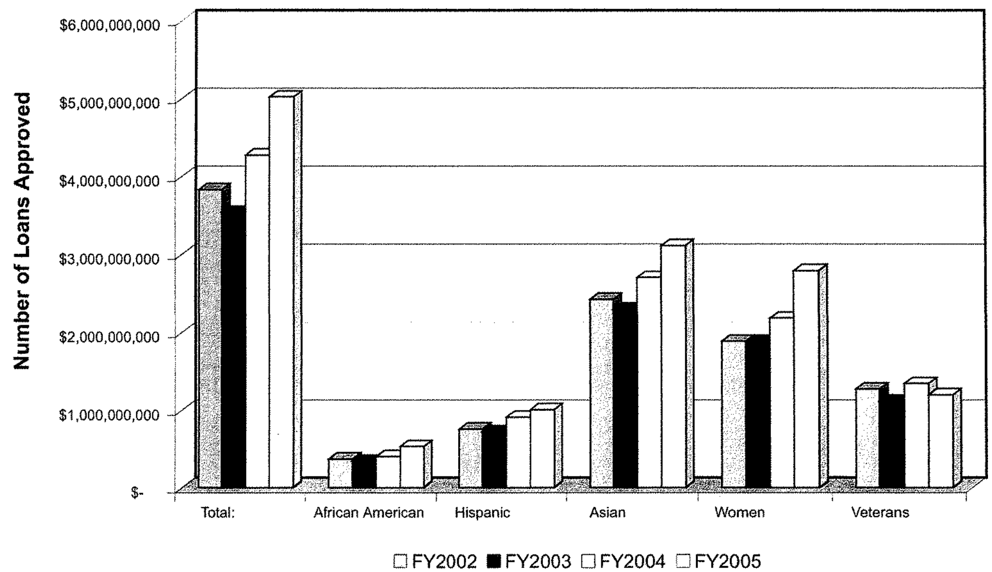
7(a) Gross Loan Approvals to Minorities FY 2002 - 2005 (in dollars)

(as of COB 2/28/06)



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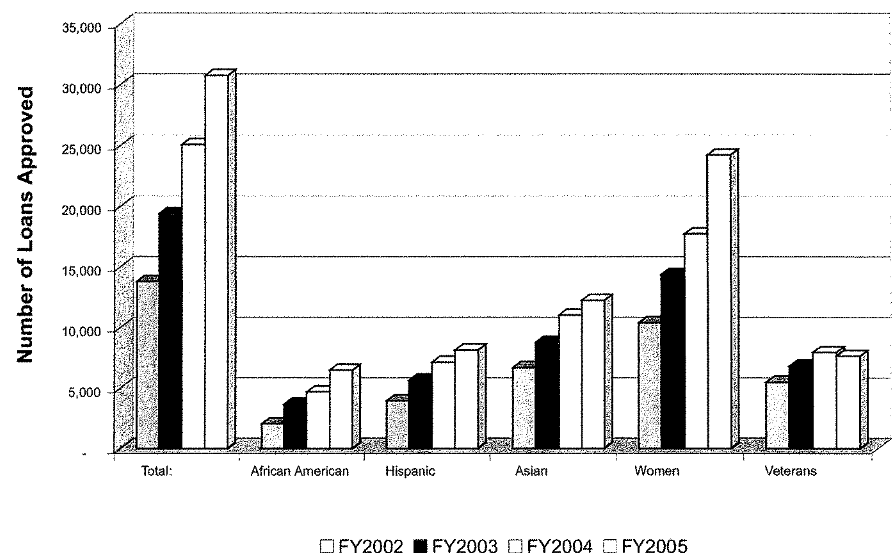
7(a) Gross Loan Approvals to Minorities FY 2002 - 2005 (in number)

(as of COB 2/28/06)



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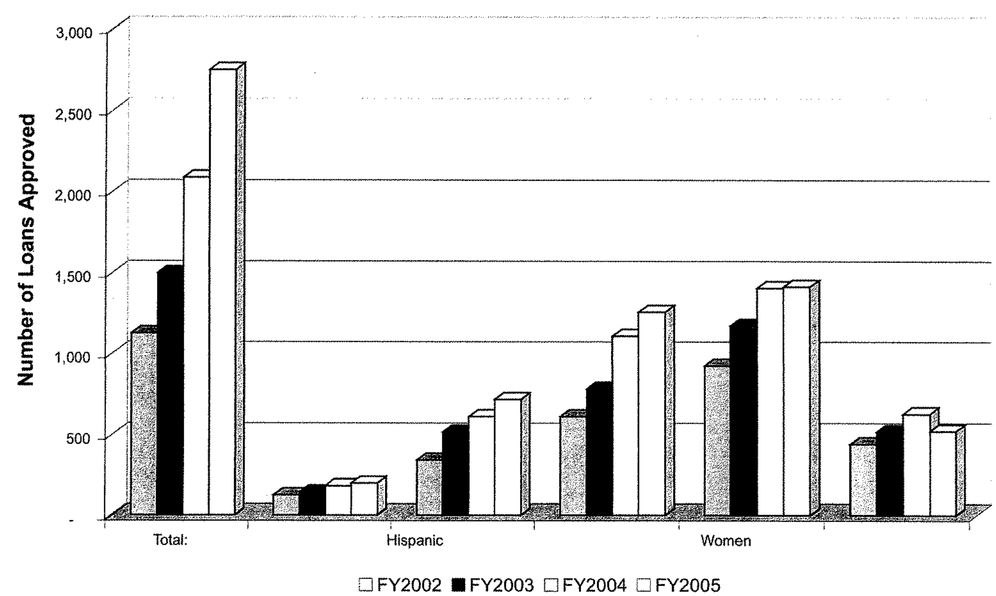
504 Gross Loan Approvals to Minorities FY 2002 - 2005 (in Number)

(As of COB 2/28/06)



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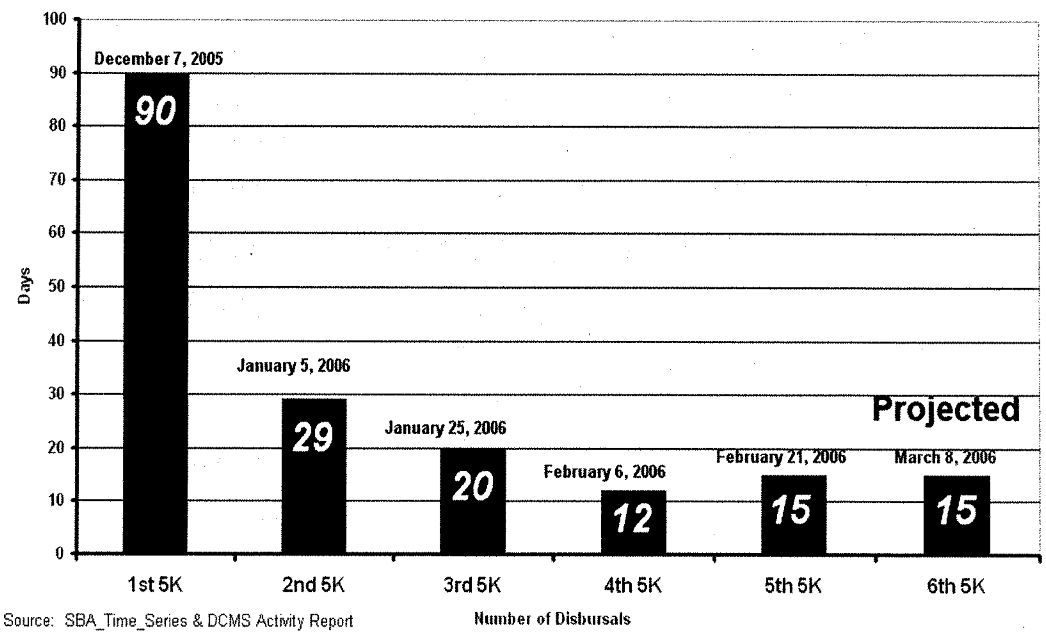
Days to Five Thousand Disbursements for Katrina, Rita & Wilma

(As of COB 3/6/2006)



Source: SBA_Time_Series & DCMS Activity Report

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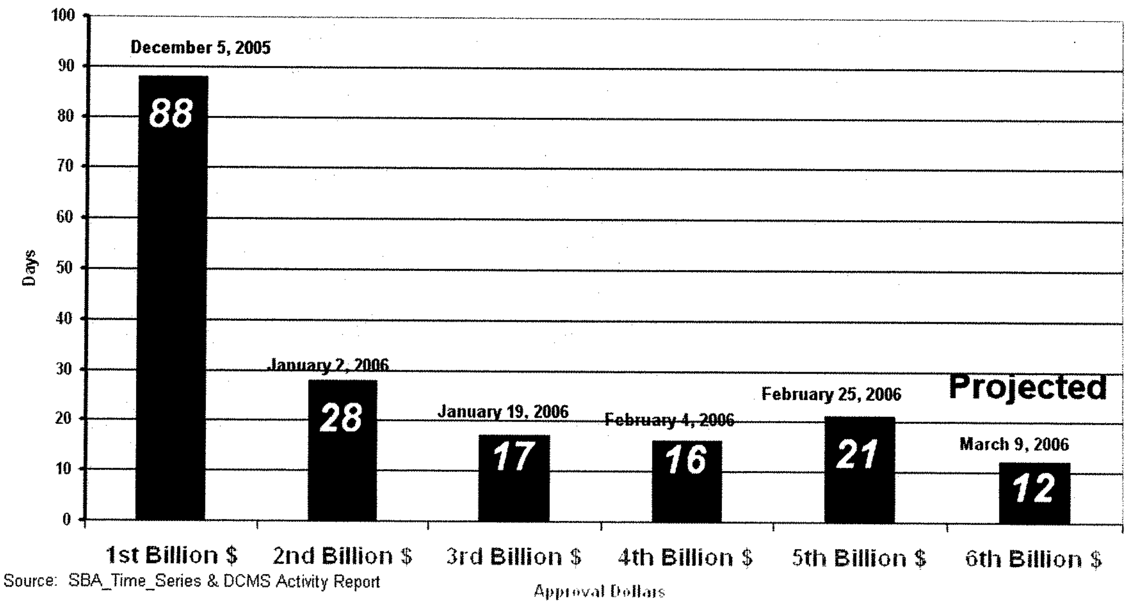
Days to a Billion Dollars in Approvals for Katrina, Rita & Wilma

(As of COB 3/6/2006)



Source: SBA_Time_Series & DCMS Activity Report

Chair SNOWE. This Committee hearing is adjourned.

[Whereupon, at 12:10 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

Statement of Senator Michael B. Enzi
March 9, 2006
Hearing on the President's Budget Request for Fiscal Year 2007
Committee on Small Business and Entrepreneurship

Madame Chair, thank you for the opportunity to share my views on the President's budget request for the Small Business Administration (SBA) for fiscal year 2007. As you know, the Small Business Committee is a personal favorite of mine. My service on the Committee allows me to use my small business experience as we work together on policy issues that will make a real difference in the lives of many people in Wyoming and throughout the country.

The SBA has clearly stepped up to the plate in lending to small businesses. I appreciate the increased 7(a) and 504 loan volume and what this increased volume means to individuals that are utilizing this funding to start or expand their small businesses. However, the SBA is more than a lender, it is also a teacher. Its entrepreneurial programs exist to disseminate the skills needed for those small businesses to succeed. While the loan volumes are increasing, the drastic and chronic budget cuts to the agency suggest that the SBA's position as a teacher for small businesses is being minimalized.

For example, the budget request zeroes out numerous technical assistance programs. I know that the SBA has indicated that they want to deliver all technical assistance through the established small business development centers, but I am concerned that the very specific missions of these programs will be swallowed up and not followed through on by the development centers which have their own specific state priorities.

In addition, I am concerned that many of these budget cuts attack programs that were created to assist rural states. For instance, the FAST and SBIR Rural Outreach programs were zeroed out. We are working in Wyoming to stabilize and steadily grow our small businesses through the utilization of the Small Business Innovation Research (SBIR) program. The risk and expense of conducting serious research and development (R&D) efforts are often beyond the means of many small businesses. By reserving a specific percentage of federal R&D funds for small business, SBIR protects the small business and enables it to compete on the same level as larger businesses. SBIR funds the critical startup and development stages and it encourages the commercialization of the technology, product, or service. By including qualified small businesses in the national R&D arena, high-tech innovation is stimulated in Wyoming's small businesses.

The FAST and Rural Outreach programs are congressionally authorized programs that provide technical assistance that helps Wyoming's small businesses utilize the SBIR program, but the budget request before us does not include this vital funding.

I also noticed that another technical assistance program, the Microloan program, has been targeted to be cut. Wyoming has the fifth largest percentage of microenterprises in the nation, over 20.5 percent. The SBA has indicated that other, less expensive loan programs will pick up the slack. However, I am concerned that those programs lack adequate technical assistance to prevent loan defaults among these borrowers that face unique challenges.

These are just a few of my concerns regarding the President's request for the SBA. However, I recognize that this is just the first step in a development process. As a member of the Budget Committee, I will help draft the fiscal year 2007 budget to be passed by Congress. Then, the Senate Appropriations Committee will use the blueprint of the budget and determine the funding levels for specific programs in fiscal year 2007. I look forward to working with the Chair, Ranking Member and the Administrator to address the needs of the SBA through this process.

THE SURETY ASSOCIATION OF AMERICA

Testimony of Lynn M. Schubert

Before the U.S. House of Representatives

Subcommittee on Tax, Finance and Exports
Committee on Small Business

"Oversight of the Small Business Administration's Finance Programs"
March 9, 2006

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Subcommittee on Tax, Finance and Exports of the Committee on Small Business of the United States House of Representatives

Oversight of the Small Business Administration's Finance Programs
Testimony of Lynn M. Schubert
March 9, 2006

Mr. Chairman, thank you for inviting us here today to testify on a matter that is critical to the surety industry, to the construction industry and to small and emerging businesses.

The Surety Association of America (SAA) is a trade association of over 500 insurance companies that are licensed to write surety and fidelity bonds. SAA members collectively provide the vast majority of performance and payment bonds on federal and state construction projects in the United States.

The SAA's Interest in the Funding and Activities of the Small Business Administration — The Surety Bond Guarantee Program.

Some History

Since the early 1970s, the SBA has operated a Surety Bond Guarantee Program ("the Program"). This program which provides surety bond companies with partial repayment of losses from bonds that they would not ordinarily write for less qualified small and emerging contractors. The purpose of the Program is to obtain surety bonds for small and emerging contractors so that they can develop a track record of success. As these contractors grow and establish themselves, they then already have a relationship with a surety company. This surety company then can provide the bonds they need as government contractors, either with or without the SBA Bond Guarantee. The goal of the guarantee program is to graduate contractors into the standard surety market, making the guaranty funds available for new small and emerging contractors.

It is essential to understand why this is important. For most public construction projects, contractors are required to provide surety bonds to the government. These bonds guaranty that the contractor will perform the work and will pay the subcontractors, suppliers and workers on the project. Since the surety will be required to pay if the contractor cannot perform its contract and pay its bills, a surety carefully examines the contractor's capability, experience and financial situation when determining whether or not to put it's own financial wherewithal behind the contractor. Establishing a track record and building capital is a challenge for small and emerging contractors. Therefore, in order to assist these small businesses to obtain work on public projects, the federal government determined that it would act as a reinsurer to sureties willing to write bonds for these contractors.

As the Program has evolved, there are two plans under which sureties can participate in the Program:

The Prior Approval Program ("Plan A") was the original SBA bond guaranty program. In this program, the surety must obtain SBA approval for each bond prior to writing the SBA guaranteed bond. The surety is permitted to charge the rate for the bond that is on file and approved by the state insurance regulator in the state in which the bond is written. The SBA indemnification of the surety in the event of a claim on the bond in Plan A is 80%, and 90% for bonds written for socially and economically disadvantaged contractors and bonds written for contracts under $100,000.

Because of the administrative burden of prior approval, over the years many of the larger, more traditional sureties declined to participate in the Program. Additionally, it appeared over the years that contractors were not graduating out of the Program, but continuing to obtain bonds only with the SBA guarantee. Although there were a significant number of sureties participating, the SBA wanted more of the traditional sureties to participate in the Program. Therefore, the SBA and the industry met to create a program that would be of interest to more sureties. That program is the Preferred Surety Bond Program ("Plan B"). Under this plan, sureties apply to participate, submitting information up front on their underwriting practices, financial strength, etc. Once a surety becomes a participant in Plan B, it is given an aggregate limit of bonds that it can write within the Program. As long as the surety complies with all of the requirements of Plan B, reimbursement of losses is provided without prior approval of the bond.

For Plan B, since it was enacted as a trial program, the SBA limited the rates that the surety could charge to those that the SAA filed. At that time, the SAA was the rating organization for the surety industry. In exchange for the reduction in the administrative burden in Plan B, the surety industry agreed to accept only a 70% indemnification instead of the 80% and 90% provided in Plan A. Since that time, the original regulation has become unworkable. The SAA stopped filing end rates in 1993. However, the SBA never has amended the regulation regarding what the surety should charge for a bond written in Plan B. Unfortunately, this means that current SBA regulations require sureties to charge the end rates that the SAA filed in 1987. Plan B no longer is a trial program, and it needs to be administered accordingly.

The Value of the Program.

In the past ten years, over $8 billion in bonds have been issued to small and emerging contractors through the Program. The Program has provided bonding assistance to small and emerging contractors who might not otherwise be able to obtain bonds. This has been especially true in times of economic downturn when bonding sometimes becomes more scarce and difficult to obtain.

The SBA is permitted to guarantee bonds of up to $2 million. In 2005, Congress started to consider increasing the maximum bond that the SBA can guarantee to $10 million for any procurement related to Hurricane Katrina. To the SAA, this recent legislative development recognizes the requirement and value of surety bonds on federal construction projects. It also shows the desire of Congress that the SBA Bond Program be effective in helping small and emerging contractors, especially now in the Gulf Coast reconstruction.

The Current State of the SBA Bond Guarantee Program.

Over the years, surety participation in the SBA Bond Guarantee Program has ebbed and flowed. One primary driver is the economy, which includes the profitability of the surety industry and the appetite for bonding small and emerging contractors. Another driver, however, is the administration of the Program. In recent years participation in the Program has only decreased, and the reasons for this are listed below in the remedies suggested for the SBA reauthorization legislation and the Fiscal 2007 budget. The fact is that the SBA Program currently is operating at about one-third of its capacity. While this made a great deal of sense in the years when surety was profitable and companies were writing bonds for small and emerging contractors without any need for the Program, it does not make sense now. The economy is such that there is a significant need for the Program. However, internal problems with the Program have discouraged many companies from participating, and discouraged many that do still participate to limit their participation. To make matters worse, it now appears that the Program no longer will even make financial sense to sureties.

In 2005, the SBA finalized changes to its regulations that would implement an increase in the guarantee fee to surety companies from 20% to 32% of the premium on bonds issued and guaranteed under the Program as of April 3, 2006. This fee increase, which amounts to a 60% hike, will likely make the program economically unattractive for most sureties and will affect the continued viability of the program. Sureties already write bonds with very little margin. This reduction in the premium the surety will receive is untenable.

The fee increase apparently resulted from an Office of Management and Budget (OMB) actuarial study of the SBA's losses under the Program, which led to the conclusion that the SBA had to increase the fees charged to sureties in order to cover its losses. Because of the potential impact on surety participation in the Program, the SBA reconsidered its fee increase and recently promulgated a regulation changing the percentage of the premium charged to sureties from 20% to 26%, instead of 32%, and also increasing the fees charged to the small businesses obtaining a bond through the Program. The overall affect of this proposed revision is to increase the SBA's revenues to cover its losses from the Program, by dividing the burden of the increased costs between the sureties and the contractors.

While we appreciate the proposal to reduce the increase, any fee increase on sureties hurts the small and emerging contractors that the SBA is supposed to assist to the extent that it causes sureties to rethink their participation in the program. Without participating sureties, the SBA will not be there to help small and local businesses.

What is Needed in the SBA Reauthorization Legislation and the Fiscal Year 2007 Budget.

The most critical aspect of oversight of the SBA right now is an evaluation of the purpose of the SBA Surety Bond Guarantee Program. The House Committee on Small Business needs to decide if it wants the Program to continue. The SAA is concerned that without support for the Program at the highest levels, the Program could fade away in the near future.

The SAA believes that the Program is vital to the growth of small and emerging contractors in America. One, well-run Surety Bond Guarantee Program assures consistency of participation requirements and administrative procedures. Without the SBA Bond Program, many federal agencies may initiate their own program to assist small and emerging contractors. Some already have done so. States also have begun this process. Duplicative efforts among federal and state agencies waste time and resources that should instead be used to help small businesses. The SAA urges that the Reauthorization legislation and the fiscal 2007 SBA budget be aimed at increasing the volume of bonds that the SBA Program writes and increasing the number of sureties participating in the Program. We believe that this can be accomplished by the following:

- ***Recognition that the SBA Program Serves an Important Public Policy Function and That It May Not be Self-Sufficient Each Year;*** The SAA understands the strain on the current federal budget due to the enormous unavoidable and necessary expenditures in the Gulf Coast region. However, Congress has never required the SBA Bond Guarantee Program to be self-sufficient. The Congressional declaration of policy for all the SBA programs in the Small Business Investment Act of 1958 was to stimulate and improve the economy by establishing assistance programs for small business which are to be "carried out in such a manner as to insure maximum participation of private financing sources." (15 USC Section 661). If the purpose of the Program is to help small and emerging contractors that may not otherwise qualify for bonds in the marketplace, it stands to reason that there will be losses, and the Program, as originally drafted, acknowledged that fact by recognizing that it could not be self-sufficient. The SAA believes that the OMB's directions to increase fees to cover SBA losses is a major shift in philosophy and direction for the SBA Program and is in conflict with the spirit of the law. The public policy of helping small and emerging contractors is a sound one and it needs to be supported in the funding structure and reauthorization of the SBA.

- ***Transparency in the SBA Fee Structure;*** The basis for the fees charged to sureties participating in the SBA Program should be open and apparent. If the OMB has prepared an actuarial study, this should be made public so that actuaries in the surety industry can review and analyze the data and the conclusions drawn from it. Only then can a meaningful discussion of SBA fees take place. If, for example, more sureties participate and the bond premium volume rises significantly, the current 20% fee will generate more revenue and a fee increase may not be needed.

- ***Elimination of 1987 Rate Requirements;*** The requirements in the federal regulations imposing price controls on sureties in Plan B of the SBA Program are outdated and must be eliminated. The SAA ceased to make rates in 1993 and has promulgated loss costs ever since. Yet, sureties currently in this program still have to charge the SAA end rate from 1987. The SBA must change this through its regulatory process.

- ***Prevention of the of Unraveling SBA Bond Guarantees;*** A strong deterrent to participation in the SBA Program has been the denial of reimbursement to the surety after a claim has been made on a bond issued through the Program. In the reauthorization legislation, we would suggest an amendment to the effect that once the SBA has approved a bond in the Prior Approval Plan, it cannot reject the bond after it has been issued, provided that the surety made a reasonable attempt to comply with the law.

a Increased Regional Staffing for SBA Bond Program; Several SAA members have noted the decrease in the number of SBA regional offices and the overall decrease in staffing in Washington DC and in the regions. We also find that the staff are inexperienced in the surety business such that we would suggest an appropriation for surety bond education and training.

Summary and Conclusion.

The continued viability of the SBA Bond Guarantee Program is at stake at a time when the Program is needed the most. Unprecedented rebuilding needs to take place after the devastation of Hurricanes Katrina and Rita in the Gulf Coast region. Small, local and emerging contractors should have the opportunity to participate in this reconstruction. Bonding will be needed on construction projects in the Gulf Coast states for many years to come. The Program will be a vital part in ensuring that small, local and emerging contractors can obtain the bonds to participate in the reconstruction and go about the business of rebuilding their own companies as well.

To make the Program successful, the House Small Business Committee needs to focus on improvements that are needed, as well as the necessary appropriations. The SBA needs to work immediately to encourage more sureties to participate in the bond program so that it is ready for the upcoming spike in applicants for assistance.

The SBA needs to increase numbers of SBA bond personnel in field offices, provide greater surety education of SBA personnel, and develop a more streamlined application process.

The SAA is willing to provide any assistance in making these changes. We support the continuation and revitalization of the SBA Bond Program. We believe that the SBA and sureties must be business partners in making this Program work.

The current leaders of the Program appear committed to the Program, and have been working hard to revitalize it. However, they cannot do it alone. Congress must be a part of this solution.

Thank you.

STATEMENT

by

The National Association of Development Companies

on

The Small Business Administration

<u>504 Loan Guaranty Program Status</u>

<u>& Proposed FY 2007 SBA Budget</u>

Submitted to the

COMMITTEE ON SMALL BUSINESS
& ENTREPRENEURSHIP

UNITED STATES SENATE

by

Mr. Kurt Chilcott
President & CEO
CDC Small Business Finance
San Diego, Ca.

March 9, 2006

The National Association of Development Companies (NADCO) is pleased to provide a statement to the Senate Committee on Small Business & Entrepreneurship concerning the SBA budget proposed by the Administration for FY 2007 as well as the status of the SBA 504 Loan Guaranty Program.

NADCO is a membership organization representing over 250 Certified Development Companies (CDCs) who are responsible for the delivery of the SBA 504 program. NADCO's member CDCs provided more than 99% of all SBA 504 financing to small businesses in 2005, stimulating the investment of $12 billion in small business projects and the creation and retention of over 145,000 new jobs. CDCs are almost exclusively not-for-profit intermediaries with a statutory mission of economic development achieved through the delivery of the SBA 504 and other economic development programs and services customized to the needs of their respective communities.

NADCO's mission is to serve as the voice of the CDC industry and the 504 program with Congress and the SBA to ensure the sustainability of this industry and the 504 program. We provide advocacy, policy and technical support and educational services to the industry. We work closely with the SBA and our for-profit lending partners to continue to effectively deliver what is certainly the largest and most successful federal economic development finance program in history (over 1.4 million jobs, $25 billion in 504 loans and the leveraging of over $30 billion in private investment) We are passionate about our work to assist small businesses to become owners of their facilities and as a result create valuable jobs and investment and stability in our communities across the country.

NADCO would like to thank Chair Snowe and Ranking Kerry and the entire Committee, for continued support of the CDC industry and the 504 program. The Small Business & Entrepreneurship Committee has worked closely with the Congressional leadership, SBA, and our industry to ensure the availability of this valuable economic development program to small businesses over the years.

NADCO's comments are divided into four sections:

1). SBA's proposed FY 2007 504 authorization
2). SBA's proposed new Business Loan Fee
3). NADCO's proposed CDC Modernization legislation
4). Additional Issues and Concerns.

504 FY 2007 Authorization:

The Administration has proposed an authorization ceiling of $7.5 billion for FY 2007, which is equal to the current FY 2006 ceiling. With 504 program demand by small businesses growing at a rate of almost 40% year-to-date, NADCO believes the proposed authorization to be inadequate.

FY 2006 demand is projected to exceed $7.0 Billion and this demand is expected to continue at a high level well into FY 2007. The proposed authorization request of $7.5

billion would provide for approximately 7% growth rate, far below the last three years growth rates of 28%, 26% and 26%. Clearly, the proposed authorization level will be insufficient to meet small business demand for the 504 loan program.

An insufficient authorization level can have disastrous effects on small businesses and the viability of the 504 program. SBA would be forced to either ration credit throughout the year, or even shut down the program late in the year. This cannot be allowed to happen. It is far preferable to have more than adequate authorization to ensure the availability of the program, the credibility of the SBA and the future of the SBA 504 program.

Furthermore, as the Committee knows, the 504 program has been at "zero subsidy" since 1997. This means that there is virtually no cost to the taxpayer for the program. It is paid for by user and lender fees. In fact, budget information provided by SBA reveals that the 504 program has actually provided excess fees to the U. S. Treasury over about $300 million since going off budget.

Given that there are no savings to the federal budget from an inadequate authorization level, we urge the Committee to increase the loan authority for FY 2007 to ensure that small businesses are not turned away by SBA. We request a minimum of $8.5 billion in loan authority - $1 billion more than the Administration's proposed figure.

Proposed New 504 Loan Fee:

The Administration proposes that a completely new user fee be added to the 504 program for FY 2007. The fee would be levied on all 504 loans that exceed $1 million, estimated by SBA to be at least 15% of our small business borrowers. The fee would be approximately 11 basis points or 0.11% of the guaranteed 504 second mortgage loan amount, according to SBA sources. While it is unclear how this fee would be levied, it will be the small businesses, either directly or indirectly, that will be burdened with this additional cost.

NADCO is strongly opposed to this new fee on small businesses and supports the opposition of the House Small Business Committee as noted in the February 17, 2006 Committee letter to the House Budget Committee. NADCO urges the Committee to make the removal of this fee from the proposed FY 2007 budget a top priority.

NADCO has a number of concerns regarding this fee proposal. First, it places an additional burden on thousands of small businesses and fundamentally increases their cost of capital. This results in less capital available to grow their businesses and create jobs and investment in their communities. It will also likely lead to a diminished demand for the SBA 504 program, denying access to small businesses of this important affordable business ownership program.

Second, the fee represents the proverbial "camel's nose under the tent" that once enacted opens the door for the SBA to pass unsubstantiated "administrative costs" on to its financing programs and ultimately the nation's small businesses in future years. This fee sets a dangerous precedent that should not be allowed to transpire.

Third, the fee could well lead to the entire loan administration process being "off budget", and therefore no longer under the oversight of Congress. Allowing the capital access programs of the SBA to be supported by "non-appropriated user fees" could ultimately result in the formation of another off-budget Government Sponsored Enterprise, or GSE, with unlimited authority to modify its programs and operations without any review or oversight by Congress.

Finally, there are a number of unanswered questions regarding this fee that the SBA has yet to address. NADCO is concerned that there has not been an accurate and thorough disclosure of SBA's administrative costs that are to be paid for by this fee, of the calculations used to determine the fee and of the manner in which it is to be applied and implemented.

For all these reasons, NADCO urges the Committee to oppose this new fee on small businesses.

Proposed CDC Modernization Legislation:

The CDC industry through the 504 program continues to provide small businesses with access to long term, fixed rate, low cost capital, through which these small businesses create hundreds of thousands of new jobs. With no cost to the taxpayer, 504 is without question, one of the most productive and effective Federal loan guaranty programs.

In the last several years, however, the SBA, the CDC industry and the 504 program have experienced unprecedented structural changes that have had tremendous impact on the delivery and the future of the504 program and the CDC industry. This includes two major changes – the centralization of all 504 loan processing, loan servicing and liquidation functions from 70 SBA district offices to one or two centers in the country, and the "deregulation of the industry" that provides for every CDC a minimum statewide area of operations for delivery of the program.

The impacts of these changes are very much still being felt and the implications for the industry and its future are becoming clearer as we have more experience and are able to see the results of these fundamental changes. This is why we believe it is critical that Congress examine the program and industry at this time and set a statutory course that ensures the intent and mission of CDCs and the 504 program for the future are clearly established. This will allow the Agency that has implemented these changes through the regulatory process to take the steps to meet the statutory intent from Congress for the program and the industry into the future.

NADCO has undertaken a strategic planning process that we believe helps to set the course for the future of the CDC industry and the SBA 504 program. Therefore we propose that the following steps be taken through the legislative process as outlined in our legislative proposal – The CDC Modernization Act:

- Clearly establish the intent and mission of the CDC industry and the 504 program as economic development

- Recognize and preserve the value of CDCs as non-profit economic development intermediaries that are an essential and highly successful element in Congress' and SBA's strategy to assist small businesses to create jobs and investment in all our communities. Reconfirm the statutory intent of CDCs (local and state development companies) as originally established in 1958 to provide small business programs, services and assistance that for-profit lenders do not and should not provide.

- Prohibit the SBA from continuing to promote any duplication between its major lending programs – 7a and 504 – that have always had very different missions, structures and benefits to our small business program infrastructure. These programs are both very much needed and deserving of support, but they serve different purposes and meet different small business needs.

- Direct the SBA to collect and publish information on all the benefits of the SBA 504 program including the public policy goals such as assistance to women, minority and veteran owned businesses and on the full range of services and programs provided by the CDC industry as outlined in their required Annual Reports to SBA.

- Ensure that expansions of CDCs to contiguous states are completed in a timely manner, but more importantly that they conform to the local economic development intent and accountability that represent the core values of the CDC industry and the 504 program.

- Clearly establish, expand and report on the community and public policy goals of the 504 program. Currently these include expansion of exports, minority, women and veteran-owned business assistance, rural development, manufacturing businesses, and areas impacted by Federal budget cutbacks. NADCO proposes adding low income communities in order to provide expanded access to capital for businesses in these areas.

In addition in order to increase the effectiveness of the CDC industry and the 504 program, we have included the following program improvements in our legislative proposal.

- <u>Combined Public Policy Business Ownership</u>: Narrow regulatory interpretation by SBA has led to otherwise-qualified borrowers under two public policy directives not being allowed to take advantage of the larger loan amount of $2 million. We ask Congress to provide more specific guidance to SBA in order to expand this regulatory interpretation.

- Limited Debt Refinancing: Some potential small business borrowers have existing higher priced mortgages on their facilities that should be refinanced as a part of their expansion strategy. These small businesses should have limited access to the SBA 504 program for refinancing purposes when it is a part of an expansion project.

- Program Fee Adjustment: First mortgage lenders currently pay a 1/2% one-time fee to SBA as their contribution to the program cost. This fee is then passed on to the small business borrower through higher rates or fees on their permanent or interim loans from the lender. We request that this fee be amortized over the life of the 504 loan and split between the small business and the CDC. This will lower the upfront costs to the small business and further encourage bank and non-bank lenders to participate in the program.

- Financing Closing Costs: In order to save small business borrowers up-front cash for use as working capital, we request that Congress enable them to finance their 504 closing costs in the loan, just as most homeowners are able to do for their residential loans.

- Combined 504 & 7(a) Loans: Small businesses need both long term fixed asset financing through the SBA 504 program and more general shorter term working capital and equipment financing through the SBA 7a program. Small businesses should be able to utilize both SBA loan guaranty programs to their maximum amount. This will allow small businesses to meet their full range of capital needs for both short and long term financing.

- 504 Loan Liquidations: We request that Congress direct SBA to require that 504 defaulted loan liquidations and recoveries be processed by CDCs or their outside contractors, and that CDCs be compensated for the costs of these recovery actions.

NADCO urges that the Committee review and adopt NADCO's proposed legislation. It is critical to take these steps at this point in time to ensure the future of this industry and the 504 program. We believe this will result not only in continued growth of the 504 program and the ability of small businesses to become owners, but to the expansion of other programs and services provided through the CDC industry for the purpose of economic development, job growth and investment throughout the country.

Additional Issues and Concerns

HR 3982

Recently, legislation was introduced (HR 3982 – Congressman Doolittle) that proposes to make several changes to the process by which CDCs can expand to other states and to the governance structure of Certified Development Companies. The NADCO Board of Directors representing all ten regions of the country and CDCs, large and small, has unanimously voted to oppose HR 3982.

NADCO believe that this legislation is an attempt to circumvent both the statutory purpose of a development company and its accountability to the communities it is chartered to serve. Furthermore, it diminishes the local economic development mission of the CDC industry and proposes to change SBA regulations governing "Ethical Requirements for CDCs". NADCO does not believe that this bill will result in promoting greater access to the SBA 504 program for small businesses or to improvements to CDC efficiency.

NADCO's concerns regarding this proposed legislation have been detailed in correspondence to and discussion with the leadership of the Small Business & Entrepreneurship Committee. We urge the Committee to join NADCO and the CDC industry in opposing this legislation that would lead to the "franchising" of CDCs across the country and violate the basic statutory and regulatory purpose of a Certified Development Company and the delivery of the SBA 504 program.

Competition

In 2004, SBA adopted regulations that dramatically changed the landscape of the CDC industry, allowing for state and multistate area of operations for all CDCs. As NADCO noted in its extensive comments on this regulatory process, this increased competition has the potential to generate both positive and negative results. While there has been no comprehensive examination of the results of these changes by the SBA, it appears that the CDC industry is experiencing program growth in many areas of the country. There have been numerous requests by CDCs to expand, particularly through the Local Economic Area process.

However, NADCO is concerned that not all the results have been positive and that the SBA has neither a plan nor the capacity to deal with the negative consequences created by these regulatory changes. Perhaps, our largest concern relates to the credit quality and standards of the industry. Since a relatively small number of CDCs are responsible for a very high proportion of SBA 504 production, changes in credit standards by even one or two CDCs can have a dramatic impact on our subsidy rate and the cost of the program for our small business borrowers. Currently SBA's oversight only occurs well after the credit decision has been made and the potential damage has been done. We urge the Committee to ensure that SBA is taking all steps necessary to protect both the credit quality and conformance with SBA regulations designed to minimize abuses in the loan approval process and the credit quality of the loans being approved.

NADCO is also concerned that as a result of increased competition, not all communities within a CDCs Area of Operations are being served. This is particularly true for rural areas where the cost of delivering the program is higher and there is a much lower potential for new projects and a higher risk of loss. SBA must ensure that these areas are being served as part of a CDCs charter responsibility.

Finally, NADCO is concerned that this increased competition is blurring the lines between non-profit and for-profit lending practices. A CDC with contract loan officers working out of their homes and no connections or accountability to the communities they are operating in does not meet the statutory intent for CDCs or the 504 program. In addition, in many instances, increased competition, rather than providing more choice to the small business, has increased choice for the banks and non-bank lenders. While on the surface this may seem to be a positive development, in practice banks are forcing CDCs to adopt credit standards and project structures that may not be in the best interest of the small business, the SBA or the CDC industry or face losing these banks as lending partners.

SBA and Congress must ensure that the statutory intent and integrity of the CDC and the 504 program is being met in this new era of increased competition and that CDCs are being held accountable for meeting this intent not only through the responsible delivery of the SBA 504 program but through their reinvestment in economic development programs and services in the communities they serve. NADCO's proposed legislation seeks to address these significant challenges and to preserve the not-for-profit economic development mission of the CDC industry. Again, we urge the Committee to adopt our proposed legislative proposal as a part of the program reauthorization process.

Liquidation Regulations

SBA has recently published a proposed regulation containing procedures for 504 and 7a loan liquidations. Despite numerous meetings with senior SBA officials on this important regulation draft, it contains neither of NADCO's primary recommendations.

NADCO's first major recommendation is to make CDC participation in the liquidation of its defaulted loans mandatory for all CDCs. CDCs could use their own staff or be able to contract for these services from a qualified firm that had been approved by SBA. NADCO's second recommendation was that CDCs be compensated by SBA for this work whether performed internally or externally.

The reason for our first recommendation is clear: SBA has eliminated nearly all its portfolio management field staff that used to perform 504 liquidations. NADCO continues to express our concern to the Agency regarding the lack of progress and tracking on current defaulted SBA 504 loans and has urged the Agency to take all steps possible to ensure that the liquidation responsibility is transferred to the CDC to ensure the best possible recovery rates.

The justification for our second recommendation is also clear: the fee structure for 504 that dates back to 1986 was not created to cover the costs of CDCs working on loan liquidations. It was created to cover normal loan processing and servicing. Loan liquidation and collateral recovery are frequently very time-consuming and labor-intensive activities. SBA should not transfer the responsibility without also providing for the cost of fulfilling that responsibility.

For these reasons, NADCO requests the Committee to pass the provisions of our CDC Modernization bill that require SBA to make these two changes to its proposed liquidation regulation. Without these additions, we believe that it will be very difficult to successfully complete liquidations and recoveries that meet OMB requirements and maintain the low borrower fees now in place.

Conclusion:

Through the 504 program, SBA provides the largest, most successful and lowest cost economic development program within the Federal government. Its real value to America is immeasurable. Through the jobs it helps create and the small business growth it fosters, the SBA 504 program benefits employees, business owners, communities and governments at all levels.

With the CDC industry, SBA has created a valuable network of economic development lenders with expertise and resources that provide value and services and commitment that for-profit lenders cannot and should not provide. The CDCs accountability to the communities it serves, and their reinvestment in those communities must be preserved and enhanced or much of their unique value will be lost.

We urge the Committee to continue to support the growth of the 504 program and at the same time to preserve and enhance the economic development mission of the program and the CDC industry. This can best be accomplished by passing our proposed CDC Modernization Act during this session.

Again, we thank the Committee for its support of the CDC industry and the SBA504 program and look forward to another successful year of providing the opportunity of ownership for the nation's small businesses.

I would be pleased to answer any questions from the Committee.

Association of Small Business Development Centers®

Statement of

Donald Wilson

President, Association of Small Business Development Centers

March 9, 2006

For the

United States Senate Committee on Small Business and Entrepreneurship

Hearing on the FY 2007 SBA Budget

Chair Snowe, Ranking Member Kerry, and members of the Committee, I am Donald Wilson, President and CEO of the Association of Small Business Development Centers (ASBDC). ASBDC's members are the 63 State, Regional and Territorial Small Business Development Center programs comprising America's Small Business Development Center Network. SBDC programs are located in all 50 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 more than 1,000 service centers nationwide, serving more clients than all other Federal small business management and technical assistance programs combined.

Madam Chair and Ranking Member Kerry, I would like to thank you and the members of the 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 your strong support of our nation's Small Business Development Center network. You have been true champions of small business owners, aspiring entrepreneurs and the SBDCs that serve them. I commend you for holding this hearing on the Administration's budget request for the SBA for FY 2007.

The Administration has proposed to reduce or eliminate funding for most entrepreneurial development programs. I am not an authority on other SBA Entrepreneurial Development programs, so I will focus my remarks on the Administration's funding request for the national Small Business Development Center program.

Congress has invested hundreds of millions of dollars over the last 25 years to build an entrepreneurial management and technical assistance educational infrastructure that is the envy of the world. Other nations are constantly contacting SBDCs, ASBDC and SBA, to try and learn how they can emulate what Congress and the American people have built with tax dollars. State and local governments and educational institutions have invested even more in the program than the Federal government.

As a result of this investment by Federal, state and local funding partners, SBDCs were able to provide one-on- one business counseling in FY 2005 to a quarter of a million small businesses and aspiring small business owners. Unfortunately, that was a decline from the 280,000 small businesses and aspiring business owners to whom we provided counseling services in FY 2004. Total counseling hours were down from 1,472,417 to 1,341,399 hours in FY 2005, compared to FY 2004. Some of this decline may be due to improving economic conditions. However, with the significant increase in entrepreneurial activity in 2005, we suspect the vast majority of the decline in counseling hours is due to diminished capacity resulting from declining Federal funding.

The members of this Committee, perhaps more so than others in Congress, are aware that small businesses represent 98 percent of all businesses and employ 50 percent of the nation's non-public workforce. You understand that small businesses are responsible for over two-thirds of net new jobs year in and year out. You understand that small businesses contribute over 40 percent of receipts to the Treasury, according to GAO.

You understand that small business is big business in America. What you may not know however, is that 60 percent of small business owners have a high school education or less based on the latest research by Dr. Paul Rogers. As a result, they have had little or no formal training in business management. They may have a wonderful skill set as a machinist or a cook, or an auto mechanic, or a dress maker or a carpenter. The list is endless. However, millions of ambitious, hardworking Americans start a business but quickly confront major issues such as financial management, inventory control, marketing issues, or human resource issues for which they are totally unequipped. Dun and Bradstreet has repeatedly reported that the major reason for small business failure is bad management decisions, not a lack of capital. The Small Business Committees of the Congress a little over 25 years ago recognized the enormous need for business management assistance for small business owners and aspiring business owners. Since then, you and your predecessors have invested great public resources in this vital infrastructure. Unfortunately, Congress has now begun to let that educational infrastructure deteriorate.

Since FY 2003, inflation has eroded the real value of the nationwide SBDC network's annual Federal funding by an estimated $10 million (or 12%). The average SBDC has not had an increase in its Federal funding since the year 2000 -- reducing the real value of its annual Federal funding by nearly 20%. For most state and regional SBDC networks, the loss of Federal funding has been even more severe. For example, small-population states such as Maine, which have not had an increase in their Federal funding since 1998, have lost 25% of the real value of their Federal funding. Now the proposed SBA Budget for FY 2007 proposes to cut funding for the nationwide SBDC network by an additional $743,292, to $87,120,000.

As a result of funding decreases in recent years, state SBDC programs are closing service centers and laying off counselors. The decline in counseling hours is significant. The President speaks passionately about the ownership society, but unfortunately, some who work for him apparently do not understand or appreciate the indispensable role that the national Small Business Development Center Program plays in creating a true ownership society.

In-depth clients of the SBDC national program, that is those businesses or startup firms that received five hours of counseling or more, generated nearly 75,000 new jobs in 2004. Those clients attribute nearly 81,000 jobs saved to the assistance they received from their local SBDCs. This data is based on extensive research by Dr. James Chrisman of Mississippi State University, who has been studying the SBDC national program for roughly 20 years. What these statistics mean is that a new job is created by an SBDC in-depth client every seven minutes. $100,000 in new sales are generated by SBDC in-depth clients every nine minutes. $100,000 in new financing is obtained by SBDC in-depth clients every 20 minutes. SBDC in-depth clients create job growth at ten times the rate of the average U.S. business.

ASBDC recognizes that Federal resources are scarce. Small businesses and their SBDC counselors understand that when resources are scarce they must be allocated carefully and wisely. Resources need to be allocated to realize the best return on that investment. Based on Dr. Chrisman's research, SBDC in-depth clients directly generated $233,674,930 in new Federal revenues in 2004. This represents a return to the Federal Treasury of $2.66 for every Federal dollar invested in the SBDC national program. I think if any of you knew where you could get that type of return on your own money, you would readily make that investment.

The SBDC program is the Federal program of choice for most small business owners and aspiring business owners. SBDCs serve more clients than all other Federal management and technical assistance programs combined. Forty-one percent of our counseling clients are women and 43 percent of our training attendees are women. Thirty-one percent of our counseling clients are minorities and 21 per cent of our training attendees are minorities. Ten percent of our counseling clients are veterans. We understand that the real percentage of veteran clients is higher than that, but many veterans do not self-declare.

If we are to generate jobs for our nation's young people coming out of colleges and universities and high schools, we must stimulate job growth. The cost per job created by SBDC in-depth counseling clients, including Federal dollars and non-Federal dollars, is $2,439 per job. We would challenge this Committee, members of the Budget Committee or the Appropriations Committee to find many Federal jobs programs that could approximate that cost per job created. Most state economic development agencies consider $10,000 per job to be a successful program.

When I first came to Washington in 1974, SBA received six-tenths of one percent of Federal resources. Today that number is about three one-hundredths of one percent of Federal resources. I do not think, and hope that you do not think, that that is a fair allocation when you consider that small businesses generate 52% of our nation's Gross National Product.

The fastest area of entrepreneurial growth is among women and minorities, an area where we have a demonstrated experience, expertise and success. SBDCs work with these under-served populations. SBDCs have specialized programs for minorities, women, veterans, people with disabilities, 8(a) firms, individuals in low or moderate income urban and rural areas and individuals in HUB Zones and Empowerment Zones. We believe we are doing a highly commendable job. And we know we could do so much more with adequate resources.

ASBDC is deeply concerned about the impact that call-ups of Guard and Reserve units are having on tens of thousands of small business owners. We believe the SBDC program can help assure that, when these young men and women return home, their businesses will still be viable. But we cannot address these needs with ever declining capacity.

The challenges facing the network are many. One in every 10 Americans is today considering starting a business. In the face of ever increasing demand for services, the capacity of this remarkable educational infrastructure is declining due to declining Federal resources. It will take $110 million to restore most SBDC programs in the national network to the capacity they had just a few years ago. This is the figure approved by the Senate last year, with the passage of the bi-partisan Snowe-Kerry-Vitter-Landrieu-Talent amendment, which passed the Senate by a vote of 96-0 during consideration of the FY 2006 S-S-J-C appropriations bill. Unfortunately, that figure was sharply reduced in conference.

With an appropriation of $110 million, the nationwide SBDC network could help in-depth SBDC clients (those who receive five or more hours in a year) to:

- create 92,752 new jobs;
- save an additional 101,064 jobs;
- make $7.6 billion in new sales;
- save an additional $7.2 billion in sales;
- obtain $3.2 billion in financing to grow their businesses; and
- generate $291,891,163 in additional Federal revenues as a result of economic growth.

If Congress does not support a meaningful increase in funding to approximate the FY 2006 Senate-passed figure, the result will continue to be fewer businesses served, fewer jobs created, fewer sales, and fewer state and Federal tax revenues generated.

Finally, the SBDCs have major responsibilities when a disaster, natural or manmade, occurs. But we cannot fully respond to these disasters with ever declining capacity. Assisting small businesses in the wake of disasters is not new to Small Business Development Centers. The California SBDC played an important role in assisting small businesses following the Northridge earthquake in 1994. The North Dakota SBDC was a key player in 1997 when that state endured major flooding and devastation along the Red River. The North Carolina SBDC helped lead that state's recovery efforts following Hurricane Floyd in 2000, and more recently in responding to the destruction inflicted on Western North Carolina by Hurricane Ivan. The New York State Small Business Development Center network brought counselors from across the state into Manhattan in September, 2001, to address the needs of thousands of small businesses following the devastation and economic dislocation that occurred as a result of the terrorist attacks on the World Trade Center towers on 9-11.

The work of the New York State SBDC was recognized during Small Business Week in the Spring of 2002, when New York State SBDC State Director Jim King was awarded SBA's prestigious Phoenix Award. In the months following the terrorist attack, the New York State SBDC helped a total of 2,500 small businesses, which were able to secure more than $54 million in assistance. The Florida SBDC was a major player in responding to Hurricanes Charley, Frances, Ivan and Jeanne. The Economic Development Administration (EDA) at the U.S. Department of Commerce recognized the efforts of the Florida SBDC network when the EDA presented that agency's prestigious Excellence in Economic Development Award to the Florida Small Business Development Center Network, in the category of economic adjustment. Florida SBDC State Director Jerry Cartwright accepted the award on behalf of the Florida SBDC network at ceremonies last fall, here in Washington.

Last September, within less than a week after Hurricane Katrina hit the Gulf Coast, the Association of Small Business Development Centers trained over 150 SBDC counselors from across the nation in disaster response. The trainers were experienced SBDC personnel from states like New York, North Carolina and Florida, who had been intimately involved during the last six years in responding to major natural or manmade disasters. Forty-four SBDC counselors from 15 states (including Maine and Massachusetts) traveled to Mississippi, Louisiana, and Alabama in October and November, to assist the SBDC networks in those devastated states. Why was outside assistance needed? Tens of thousands of small businesses had been gravely impacted. Also, the Mississippi SBDC network had three of its service centers destroyed by Hurricane Katrina. The Louisiana SBDC for weeks did not know where some of its counselors were or even if they were alive. Hundreds of local business owners in dire need were seeking to access SBDC services. The ASBDC sought to provide loans from its own resources to those state networks. Corporate partners of the Association responded with incredible generosity. Intuit gave $50,000 each to the SBDC networks in Alabama, Louisiana and Mississippi. Federal Express gave $25,000 each to the Mississippi and Louisiana SBDC networks. Microsoft gave computers and printers. Others volunteered in-kind resources. Despite the overwhelming tasks facing the Louisiana and Mississippi SBDCs, no supplemental funds were requested by the Administration. We recognize that we are a program of modest size and that in the rush to address disasters, we might be easily overlooked.

It is vitally important that, when supplemental funding requests for disaster relief are crafted by SBA, there be an understanding of the heightened demands on local SBDC capacity. Often the SBDC capacity has been diminished but the demands on that capacity have been increased exponentially. I am not aware of a single disaster in the last quarter century where SBA has included in its supplemental funding requests increased resources for the SBDC network in the disaster stricken area. Adequate supplemental funding for SBDCs to meet the demands placed on them should be a standard line item in any disaster supplemental funding request.

The members of this Committee have historically been advocates for the SBDC national program on a bi-partisan basis. We ask that you remain advocates so that together we can reverse the decline in this remarkable program's capacity to serve our nation's entrepreneurs.

Chair Snowe and Ranking Member Kerry, we again thank you and the members of this Committee for all that you have done to ensure that small businesses, aspiring entrepreneurs, and the SBDCs that serve them have the resources they need. We appreciate your willingness to consider our concerns.

Attachment: Spreadsheet showing how inflation has eroded Federal SBDC funding for state SBDC networks; and how much each state SBDC network would receive with an appropriation of $110 million (as proposed by ASBDC) vs. $87.12 million (as proposed by the FY 2007 SBA Budget)

How Inflation Has Eroded Federal SBDC Funding -- State by State

State	Peak Year of Federal Funding	Federal Funding in Peak Year	Peak-Year Federal Funding in Inflation-Adjusted, 2007 $	Federal $ Lost to Inflation (between Peak Year and 2007)	% of Federal $ Lost to Inflation (between Peak Year and 2007)	Federal Funding w/ $110 Million FY 2007 Appropriation, Requested by ASBDC	Federal Funding w/ $87.12 million FY 2007 Appropriation, Proposed by SBA
Alabama	2001	$1,276,425	$1,488,822	$212,397	17%	$1,546,457	$1,211,326
Alaska	1998	$500,000	$626,150	$126,150	25%	$611,111	$500,000
Am. Samoa	2001	$200,000	$233,280	$33,280	17%	$611,111	$500,000
Arizona	2002	$1,433,189	$1,626,096	$192,907	13%	$1,784,152	$1,397,511
Arkansas	2000	$784,618	$946,328	$161,710	21%	$929,662	$728,196
California*	2004	$9,461,506	$10,329,126	$867,620	9%	$11,778,700	$9,226,151
Colorado	2002	$1,201,512	$1,363,236	$161,724	13%	$1,495,742	$1,171,602
Connecticut	2000	$1,045,447	$1,260,914	$215,467	21%	$1,184,269	$927,627
Delaware	1998	$500,000	$626,150	$126,150	25%	$611,111	$500,000
D.C.	1998	$500,000	$626,150	$126,150	25%	$611,111	$500,000
Florida	2002	$4,464,511	$5,065,434	$600,923	13%	$5,557,794	$4,353,371
Georgia	2002	$2,286,800	$2,594,603	$307,803	13%	$2,846,799	$2,229,872
Guam	1998	$500,000	$626,150	$126,150	25%	$611,111	$500,000
Hawaii	1998	$500,000	$626,150	$126,150	25%	$611,111	$500,000
Idaho	1998	$500,000	$626,150	$126,150	25%	$611,111	$500,000
Illinois	2001	$3,602,452	$4,201,900	$599,448	17%	$4,318,748	$3,382,837
Indiana	2001	$1,747,976	$2,038,839	$290,863	17%	$2,114,459	$1,656,237
Iowa	2000	$903,302	$1,089,473	$186,171	21%	$1,017,615	$797,089
Kansas	2000	$819,243	$988,089	$168,846	21%	$934,884	$732,287
Kentucky	2001	$1,162,071	$1,355,440	$193,369	17%	$1,405,505	$1,100,920
Louisiana	2001	$1,331,402	$1,552,947	$221,545	17%	$1,554,065	$1,217,285
Maine	1998	$500,000	$626,150	$126,150	25%	$611,111	$500,000
Maryland	2001	$1,507,645	$1,758,517	$250,872	17%	$1,841,827	$1,442,687
Mass.	2001	$1,894,060	$2,209,232	$315,172	17%	$2,207,867	$1,729,403
Michigan	2001	$2,930,782	$3,418,464	$487,682	17%	$3,456,045	$2,707,090
Minnesota	2001	$1,378,212	$1,607,546	$229,334	17%	$1,710,725	$1,339,996
Mississippi	2000	$847,168	$1,021,769	$174,601	21%	$989,216	$774,844
Missouri	2001	$1,614,145	$1,882,739	$268,594	17%	$1,945,707	$1,524,055
Montana	1998	$500,000	$626,150	$126,150	25%	$611,111	$500,000
Nebraska	2000	$567,629	$684,617	$116,988	21%	$611,111	$500,000
Nevada	1998	$500,000	$626,150	$126,150	25%	$694,884	$544,297
N. Hampshire	1998	$500,000	$626,150	$126,150	25%	$611,111	$500,000
New Jersey	2001	$2,434,412	$2,839,498	$405,086	17%	$2,926,049	$2,291,948
New Mexico	2000	$550,034	$663,396	$113,362	21%	$632,564	$500,000
New York	2001	$5,668,984	$6,612,303	$943,319	17%	$6,598,970	$5,168,915
N. Carolina	2002	$2,248,492	$2,551,139	$302,647	13%	$2,799,109	$2,192,517
North Dakota	1999	$500,000	$616,300	$116,300	23%	$611,111	$500,000

How Inflation Has Eroded Federal SBDC Funding -- State by State

State	Peak Year of Federal Funding	Federal Funding in Peak Year	Peak-Year Federal Funding in Inflation-Adjusted, 2007 $	Federal $ Lost to Inflation (between Peak Year and 2007)	% of Federal $ Lost to Inflation (between Peak Year and 2007)	Federal Funding w/ $110 Million FY 2007 Appropriation, Requested by ASBDC	Federal Funding w/ $87.12 million FY 2007 Appropriation, Proposed by SBA
Ohio	2001	$3,420,240	$3,989,368	$569,128	**17%**	$3,947,999	$3,092,433
Oklahoma	2000	$1,006,907	$1,214,431	$207,524	**21%**	$1,199,948	$939,909
Oregon	2002	$955,732	$1,084,374	$128,642	**13%**	$1,189,775	$931,940
Pennsylvania	2001	$3,746,336	$4,369,726	$623,390	**17%**	$4,270,676	$3,345,183
Puerto Rico	2002	$1,063,895	$1,207,095	$143,200	**13%**	$1,324,425	$1,037,411
Rhode Island	1998	$500,000	$626,150	$126,150	**25%**	$611,111	$500,000
S. Carolina	2002	$1,120,714	$1,271,562	$150,848	**13%**	$1,395,158	$1,092,815
South Dakota	1998	$500,000	$626,150	$126,150	**25%**	$611,111	$500,000
Tennessee	2002	$1,589,242	$1,803,154	$213,912	**13%**	$1,978,420	$1,549,679
Texas**	2001-02	$5,898,568	$6,711,872	$813,304	**14%**	$7,251,118	$5,679,737
Utah	2002	$623,812	$707,777	$83,965	**13%**	$776,574	$608,283
Vermont	1998	$500,000	$626,150	$126,150	**25%**	$611,111	$500,000
Virgin Islands	1998	$500,000	$626,150	$126,150	**25%**	$611,111	$500,000
Virginia	2002	$1,977,309	$2,243,455	$266,146	**13%**	$2,461,519	$1,928,086
Washington	2003	$1,656,015	$1,849,438	$193,423	**12%**	$2,049,652	$1,605,474
West Virginia	2000	$628,228	$757,706	$129,478	**21%**	$628,843	$500,000
Wisconsin	2001	$1,541,574	$1,798,092	$256,518	**17%**	$1,865,192	$1,460,988
Wyoming	1998	$500,000	$626,150	$126,150	**25%**	$611,111	$500,000
California*	**2004**	**$9,461,506**	**$10,329,126**	$867,620	**9%**	**$11,778,700**	**$9,226,151**
San Fran.	2004	$2,126,946	$2,321,987	$195,041	9%	$2,647,852	$2,074,039
Sacramento	2004	$1,054,958	$1,151,698	$96,740	9%	$1,313,325	$1,028,716
Fresno	2004	$1,105,104	$1,206,442	$101,338	9%	$1,375,752	$1,077,614
Los Angeles	2004	$2,744,783	$2,996,480	$251,697	9%	$3,417,001	$2,676,506
Santa Ana	2004	$1,637,787	$1,787,972	$150,185	9%	$2,038,893	$1,597,047
San Diego	2004	$791,928	$864,548	$72,620	9%	$985,877	$772,229
Texas**	**2001-02**	**$5,898,568**	**$6,711,872**	**$813,304**	**14%**	**$7,251,118**	**$5,679,737**
Dallas	2002	$1,963,936	$2,228,282	$264,346	13%	$2,443,627	$1,914,071
Houston	2002	$1,613,452	$1,830,623	$217,171	13%	$2,008,560	$1,573,287
Lubbock	2001	$608,707	$709,996	$101,289	17%	$667,102	$522,535
San Antonio	2002	$1,712,473	$1,942,972	$230,499	13%	$2,131,829	$1,669,843

ASSOCIATION OF
WOMEN'S BUSINESS CENTERS

STATEMENT
OF
THE ASSOCIATION OF WOMEN'S BUSINESS CENTERS

PREPARED BY
ANN MARIE ALMEIDA
PRESIDENT & CEO, AWBC

MARCH 9, 2006

U.S. SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

Background of The 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 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.

Seminal research by the National Women's Business Council[1], the Center for Women's Business Research[2], the US Census Bureau[3]and the Association of Women's Business Centers[4] validate the breadth and depth of the women's entrepreneurial market in the United States. This body of research builds the quantitative and qualitative case that women in enterprise development are a strategic and visionary solution for economic improvement.

Composite data from these studies provide specific economic growth detail.

- As of 2004, there were 15.6 million majority-owned, privately held women-owned firms, 48% of which were privately held firms by women who employ 19.1 million workers.
- By 2004, women business owners employ a gender-balanced workforce, 52% women and 48% men.
- Aggregate sales in 2004 of the majority-owned, privately held women-owned firms totaled $2.5 trillion dollars.
- Between 1997 & 2004, privately held women firms diversified into all industries with the fastest growth in construction, transportation, communications, public utilities and agriculture.

Consistently, the AWBC and the network of WBC's are the training grounds for women's entrepreneurship in the US:

- By January 2005, there were well over 125 WBC's throughout the United States as well as women business resource centers abroad that continue to train women.
- During the three years from 2001-2003, the businesses counseled by Women's Business Centers generated an estimated impact of $500 million in gross receipts on an investment of $37 million. Producing a staggering return on investment!
- Since 1989, U.S. Women's Business Centers have collectively served over 500,000 clients.
- The Women Business Centers in the United States annually train over 100,000 entrepreneurs. In 2003 alone, Women's Business Centers trained over 106,000 clients.
- Women's Business Centers have an average of 79 client visits per month, ranging as high as 350 clients per month. On average, centers serve just fewer than 950 clients annually.
- Demand for Women's Business Centers services is rising; 75% of centers noted an increase in monthly client visits in 2004.
- During 2001-2003, the number of women entrepreneurs served *nearly* doubled- a 91% increase.
- During 2001-2003, the number of new firms created by WBC's increased by 376%.
- Approximately 50% of Women's Business Centers are co-located with another organization; 38% are part of a local economic development organization.
- The average WBC budget is just under $750,000 but the median budget is $320,000.
- Women's Business Centers serve women of color at a rate far higher than their prevalence in the general population; 42% of clients served are women of color.
- WBC's serve an economically disadvantaged population; on average, Centers report that 67% of clients served are in a household income bracket of less than $50,000.
- Women's Business Centers produce entrepreneurs; 60% of clients assisted are currently leading a start-up business.

[1] National Women's Business Council, *Analyzing the Economic Impact*, September 2004
[2] Center for Women's Business Research, 2003 and2004
[3] US Census Bureau, 2004
[4] The Center for Women's Leadership at Babson College and the Association of Women's Business Centers, *The Impact and Influence of Women's Business Centers in the United States*, April/June 2005

- WBC's continue to provide critical entrepreneurial support, technical assistance and access to finance and markets in a constrained financial and staffing resource environment.
- In a safe, comfortable, relationship-oriented setting, staffed primarily by other women, women's business centers succeed in attracting clients and delivering a valuable entrepreneurial learning experience.
- The success of these Women's Business Centers is clear as the majority of clients form businesses and maintain their connections to the Women's Business Centers, creating a cycle of business connection, mentoring, and value creation.

Current Outcomes: WBC's deliver on their promise:

- Between 45 and 60% of economically disadvantaged people entering the WBC program, were no longer in poverty a year or two later.
- Studies of micro-enterprise programs, such as the Women's Business Centers, produce a return to society of two dollars to every dollar invested over 1 to 5 years.
- The 2 to 1 ROI does not account for the additional economic benefits of increased taxes paid by entrepreneurs and their businesses.
- Although many microenterprises are self-employment businesses, many others hire 10 to 20 employees.
- In addition to the jobs these businesses are creating, the tax base is bolstered through increased personal income, retail sales, personal property and corporate taxes.

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.

Responses to the President's FY2007 Budget request for the SBA:

In their brief history, 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. Appropriations

The President's budget recommends that the Women's Business Center program be funded at $11.88 million in FY2007. 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 and PRIME Programs, were recommended to be eliminated. Nonetheless, we are deeply concerned about the proposed decreased level of funding and its effect on the program.

The program experienced a decrease in funding last year of $500,000. With that exception, it had been funded at the same level for the past four years. Another year of decreased funding will mean a further 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, spreading even further the limited available resources. The result has been a significant and detrimental reduction in funding for individual centers. From a macro level, there are obvious inefficiencies: a higher number of program grants to manage, a higher number of programs having to fulfill the myriad administrative requirements that the SBA imposes upon each WBC; and, overall less client-driven activities and more administrative activities per dollar as the number of funded Centers increases while the total appropriation decreases. Currently, the program is so administratively intensive that as the amount of each cooperative agreement decreases, it becomes increasingly debatable as to whether or not it is worth an individual Center's time.

The AWBC is requesting that funds be appropriated consistent with current authorized levels: $16.5 million. This is the level of funding needed in order to meet current commitments and possibly to continue to grow the program to meet unmet demand in areas currently not served by the program. This level of funding would also be more in alignment with the administrative requirements for each individual Center.

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 report 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. Renewal of Funding Stream (aka as sustainability of funds)

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 the year before last. 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, the renewal of funding streams for performing women's business centers? 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 performing or sustainability centers is one way to achieve this.

The AWBC has long supported the idea of supporting WBCs that are successfully delivering on their performance commitments. We believe all performing WBC's, whether operating under sustainability status or not, should be able to compete for funding if they are indeed meeting performance commitments. After a great deal of effort, conversation and negotiation, the AWBC deeply regrets that

11 performing and highly successful WBC's were not allowed to compete for grant funding in 2005 due to a misguided interpretation and application of sustainability language. These 11 WBC's operated successfully throughout their tenure as SBA funded WBCs meeting the guidelines and expectations of the WBC program.

In addition to the level of funds appropriated to the WBC program, there are several other issues that will have an impact on these sustainability and performing 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. Performance Criteria

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 it 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.

Two years ago, 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 and FY2005 appropriations. 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.

4. Authorization

The AWBC is deeply concerned about the proposed decrease in the authorization levels through 2010. The recommendation of decreasing the authorization levels will have a particularly deleterious effect on the WBC program. As a result of the decrease in appropriations we have already lost some Centers while new ones are being funded and had funding cuts across the board for Centers. If the authorization levels fall and appropriations fall in accordance with the authorized levels, the impressive economic growth that the WBC has demonstrated will surely be compromised. In a time of tight funding, we must prioritize programs that serve to drive our economy: The Women's Business Center Program has proven to do just that.

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March 8, 2006

VIA E-MAIL

The Honorable Olympia Snowe
Chairman, United States Senate Committee
on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20510

Re: The President's FY 2007 SBA Budget Request

Dear Chairman Snowe:

Our firm, Piliero, Mazza & Pargament PLLC ("PMP"), respectfully submits the following comments on the FY 2007 budget request for the Small Business Administration ("SBA" or "the agency"). We represent small businesses that work throughout the federal government in a variety of industries. Accordingly, our comments focus 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. In summary, we applaud proposed funding increases for government contracting and business development, but encourage the Committee to provide additional funds for these vital activities.

I. Introduction

It bears repeating that small businesses are an essential segment of the economy. Firms with fewer than 500 employees "account for 99 percent of all firms in the United States, 86 percent of all establishments, 50 percent of total employment, 45 percent of annual payroll, and 39 percent of total receipts."[1] Moreover, new entrepreneurs—not just existing small businesses—account for the largest share (60 to 80%) of employment growth in the last decade, according to the SBA and the Kauffman Foundation.[2]

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[1] Barth, Yago & Zeidman, *Stumbling Blocks to Entrepreneurship in Low-and Moderate-Income Communities* (2005), Federal Reserve Bank of Kansas City and The Ewing Marion Kauffman Foundation, p. 5.

[2] SBA Office of Advocacy and The Ewing Marion Kauffman Foundation, *Entrepreneurship in the 21st Century*, Conference proceedings from March 26,2004.

Since the federal government is the largest single customer in the American economy, it has considerable power to advance public interests by purchasing from small businesses. As stated in the Act, one of the principal interests served through small business procurement is national security: "[National] security and well-being cannot be realized unless the actual and potential capacity of small business is encouraged and developed." See 15 U.S.C. § 631. Small business procurement is in the national interest because it increases the Nation's total production capacity, accelerates the pace of innovation, and prepares new competitors who can challenge the persistent consolidation in the industrial base.

While serving national security interests, small business procurement programs also serve the declared policy of Congress that the SBA should increase capital ownership by disadvantaged individuals, increase entrepreneurs' managerial and technical capabilities, and contribute to economic revitalization in chronically poor areas. Moreover, widespread support for small businesses in the federal contracting arena—particularly for tribally-owned businesses—is a goal worth achieving because the success of SBA's beneficiaries leads to more tax revenue and less spending on entitlements. Accordingly, Congress should insure that the SBA has adequate funding to serve its statutory mission.

For the reasons outlined below, we hope the proposed increase in the SBA's government contracts and business development ("GCBD") budget is sufficient to improve services for small businesses.

II. Proposed GCBD Funding

The FY 2007 budget proposes to return funding for GCBD activities to the approximate funding levels for FY 2005. We are pleased to see an increase of $3.6 million for salaries and expenses in the GCBD operating budget, $950,000 proposed for training and knowledge management, and the hiring of six new staff supporting Procurement Center Representatives ("PCRs"). However, we believe that the importance of GCBD programs to the small business community calls for additional funds in the proposed budget and consistent funding in future budgets.

The need for more funding is evidenced by the delays and inconsistencies many of our clients have experienced when dealing with SBA's district offices. We attribute these difficulties to the excessive workload placed on the agency's dedicated staff. For example, different district offices apply different standards when reviewing joint venture and mentor-protégé agreements, even though they should all apply the same regulations and statutes. Furthermore, we have experienced increasing delays in the review and approval process for these agreements. Because such agreements often arise from a particular contracting opportunity, delays and uncertainty about SBA approval risk scuttling these valuable business relationships. Therefore, we believe that Congress should make more funds available for SBA personnel, particularly Business Opportunity Specialists ("BOSs"), to ensure timely and accurate processing of documents that require SBA approval for contract awards or related regulatory actions.

We recognize that the FY 2007 SBA budget proposes several measures that could improve the level of service provided by district offices, BOSs, and PCRs. We hope that the proposed training and knowledge management system will result in prompt, uniform, and predictable reviews for business decisions requiring SBA approval. Also, we hope that workloads will return to normal as a result of SBA plans to link regional office staffing to the size of the area each office serves. However, we would prefer that the SBA also increase the total number of PCRs, BOSs, and Commercial Market Representatives since these key personnel have so much influence on the government-wide level of procurement opportunities for small businesses.

III. Application of the Small Business Act

Once again, we propose that Congress should direct the SBA to enforce the Small Business Act with respect to federal procurements outside the continental United States. In 1961, three years after the Act was passed, the Federal Procurement Regulations (the predecessor to the Federal Acquisition Regulations) limited the applicability of the Act, for the first time, to the territory of the United States and its outlying areas. There is no statutory basis for this provision. We believe that by counting overseas procurements toward agency small business goals, federal procurement can be a steppingstone for small businesses to enter overseas markets.

By the same token, we believe that the procurement goals mandated by the Act should also apply to all recipients of federal grant funds. Currently, federal law requires states to implement small and disadvantaged business programs as a condition for receipt of highway funding. We believe that this model should apply uniformly. Several of our clients have found that the federal government will allow local communities to remediate Base Closure and Realignment ("BRAC") sites so they can be transferred more quickly. Although the small business procurement goals would apply if the Department of Defense were acquiring these services, we understand that localities which receive federal redevelopment grants will not be required to utilize small businesses. Considering the economic impact of closing and realigning bases, it is intuitive that small and local businesses should play a major role in helping their communities adjust to BRAC decisions. Moreover, we believe that linking federal funding to small business procurement is consistent with the goals of the Act.

IV. Bonding

We applaud the SBA's goal of increasing access to surety bonds for thousands of small businesses. However, we believe that through legislative changes, Congress and the SBA could streamline bonding requirements for small businesses. The federal government's bonding requirements, combined with the limited bonding capacity small businesses possess, leads small firms to rely on their teaming partners (often large businesses) to obtain bonding. However, undue reliance on a large subcontractor may cause a finding of affiliation under the ostensible subcontractor rule.

In the current contracting environment, this dilemma leaves small businesses with few options to perform large construction contracts. The SBA guaranteed bonding assistance program helps to alleviate this dilemma since small businesses have few alternatives when bidding on large construction contracts. We applaud the proposed increase in bonding activity, but encourage Congress to further increase the amount of guaranteed bonds available to individual firms and to small businesses as a whole. Alternatively, as proposed below, we request that Congress allow small businesses to share responsibility for bonds with subcontractors, in proportion to their performance of work percentages, without considering the prime and subcontractors to be affiliated solely because of the bonding relationship.

To be specific, the Miller Act requires construction contracts with federal agencies to be bonded with payment and performance bonds. See 40 U.S.C. §§ 3131, 3133. Thus, prime contractors must provide a bond equal to 100% of the contract amount. Additionally, the government often requires subcontractors to provide bonds for their portion of work under a contract. This duplication places an unnecessary burden on small business prime contractors.

The U.S. government increasingly uses 8(a) companies to perform large construction projects. Agencies can award construction contracts of any value to tribally owned 8(a) firms, achieving a faster, more efficient procurement and helping develop these businesses at the same time. In this situation, the contracting agency, per standard industry practice, expects that subcontractors (such as specialty trade contractors) perform much of the work under the direction of the 8(a) prime contractor. In fact, the SBA's regulations provide that the prime contractor need perform only 15% of the actual cost of a construction contract. However, even though the 8(a) firms typically perform only a percentage of the contract, they are required to bond the entire project.

This situation presents two problems. First, the government pays for bond protection twice without receiving any additional benefit from the duplicate bond. Second, the 100% bonding requirement draws heavily on the scarce bonding capacity of small businesses, who would otherwise use the remainder of their bonding capacity in pursuit of additional business opportunities. Actual capabilities, not bonding capacity, ought to be the liming factor—especially when a contracting officer judges a firm to be fully capable. Relatively mature 8(a) firms, including those owned by tribes, want to accommodate agencies through the 8(a) program, but find it difficult to meet the bonding requirements for large projects.

We suggest allowing 8(a) prime contractors to count their subcontractors' bonds toward Miller Act obligations, possibly by requiring subcontractors to name the government as a co-obligee on their bond. Under this approach, 8(a) prime contractors would then provide their own bonds for the portion of work they will perform. This would not allow small firms to depend on large subcontractors for bonding, avoiding the legitimate purpose of the ostensible subcontractor rule. Moreover, the government could satisfy the purpose of the Miller Act—one hundred percent bonding protection—without duplicating expenses or limiting opportunities for small businesses.

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V. 8(a) Business Mix

We believe that the business mix rule is causing unintended repercussions as a result of tight federal budgets. Many of our clients report that they have earned competitive awards, only to find that appropriated funds are being redirected as a result of continued federal spending for hurricane relief and the Global War on Terror. As a preliminary matter, small businesses have few opportunities to compete for the work for which the funds are redirected, primarily because of extensive bundling and sole-source contracting and the inapplicability of the Act overseas.

Unfortunately, reductions in funding are exacerbated by the business mix rule because they disrupt plans for reaching business mix targets. Firms pursue their business mix targets by deciding which procurements to pursue. When anticipated funding is not allocated to a specific contract held by an 8(a) firm, the company could miss its target. We believe that Congress should provide some relief for 8(a) firms who miss their business mix targets because of contract funding decisions. One possible way to do so would be measuring business mix accomplishments in terms of the *anticipated* value of awarded contracts, including options, rather than *actual* contract revenue. Doing so would not change the valid goal of pushing 8(a) firms toward independence, but it would avoid penalizing them for contract funding decisions that are beyond their control.

Making matters worse, many firms have found that business mix requirements are being enforced improperly. SBA regulations provide that if an 8(a) firm does not reach its goals for non-8(a) revenue, it will be ineligible to receive *sole-source* 8(a) contracts. Unfortunately, some SBA staff have gone one step further by considering such firms to be ineligible for *any* 8(a) contracts, whether set-aside or sole-source contracts. Thus, a shortfall in funding for one contract can tip the balance of a firm's business mix and hobble the firm's future prospects. We respectfully suggest that the additional limit on set-aside 8(a) contracts is unwarranted, exceeds regulatory authority, and is counterproductive. Congress should review this matter to ensure consistent application of the rule.

Another aspect of the business mix rule frustrates Congress' intentions of supporting small businesses owned by tribes. Congress, in recognition of its special government-to-government relationship, specifically provided in the Act that concerns owned by tribes and are exempt from competitive threshold requirements. See 15 U.S.C. § 637 (note). Tribally-owned concerns are generally eligible for sole-source contracts despite the size of the procurement and are exempt from the $100 million limitation on the award of sole-source contracts. See 13 C.F.R. §§ 124.506(b), 124.519(a). The underlying reason is that tribally-owned concerns are fundamentally different than individually-owned 8(a) concerns in that their success or failure impacts an entire community, as opposed to an individual or a single family. Because tribal communities are often located in the most economically distressed areas of the country, the 8(a) program may be one of few opportunities these groups have to live in an economically self-sufficient manner.

Sole-source 8(a) awards are made because of the high barriers that have kept tribally-owned businesses from earning revenues through the economy at large. When these firms receive such contracts, the business mix rule increases the amount of revenue they are expected to earn outside the 8(a) program. It is counterintuitive to first *acknowledge* persistent economic disadvantage, then award contracts to *combat* economic disadvantage, and then *penalize* 8(a) firms via the business mix rule if they do not immediately leap over their economic disadvantages.

In reality, tribally-owned businesses—like any other firm—plan marketing strategies years in advance of their graduation from the 8(a) program. While targeting 8(a) contracts, they also pursue work outside the 8(a) program, not just because it is impossible to predict whether 8(a) opportunities will bear fruit, but because their objective is to create more jobs and return more revenue to their communities. When actual revenues fall short of targets, however, imposing a "remedial" prohibition on sole-source awards only aggravates the situation. In summary, the business mix rule penalizes firms precisely because they make the best of the opportunities that Congress and federal agencies offer. We request that Congress review the issue and clarify how the business mix rule should be applied to tribally-owned firms.

VI. Reauthorization of SDB Price Evaluation Adjustment

Until recently, Small Disadvantaged Businesses ("SDB") could receive a price evaluation adjustment when competing with large businesses in full and open competitions. However, over a year ago, Congress did not reauthorize the SDB price evaluation adjustment. In the current environment, it is extremely difficult for SDBs to compete for large contracts. The price evaluation adjustment levels the playing field in competition with large businesses. The SBA's SDB Program, as currently implemented, provides very limited benefits to SDBs. The price evaluation adjustment was a valuable marketing tool that SDBs could use to team with other businesses to perform contracts that normally would not be awarded to SDBs. The Program should be reauthorized during this next Congress.

VII. Annual Recertification

In recent years, proposals for annual recertification of small business size has been a contentious issue in the small business community. We believe that this is a core issue for entrepreneurs because it affects incentives for creating a new business. Many clients fear annual recertification will undermine the value of their businesses in the event of a merger or business sale. Their particular concern is that, if a buyer cannot make the same representations and certifications, the firm's contracts would be terminated for convenience, options would not be exercised, or new tasks would not be awarded. Thus, annual recertification could substantially impact the market value of a small business that has worked hard and played by the rules. We understand that a regulation on this matter is pending. If the final rule requires annual recertification, we submit that it should not affect existing contracts, only new awards.

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VIII. Conclusion

To summarize, we appreciate the increased funding levels for the SBA's GCBD activities. We believe that the current ongoing success of these programs proves that SBA is an effective steward of taxpayer funding. Furthermore, we believe that these programs provide taxpayers with benefits in excess of appropriations. On behalf of the law firm of Piliero, Mazza & Pargament, PLLC, we 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
Antonio R. Franco

WIPP
WOMEN IMPACTING PUBLIC POLICY

Statement of Ms. Barbara Kasoff, President

On Behalf of
Women Impacting Public Policy

Submitted to
Senate Small Business and Entrepreneurship Committee

"The President's FY2007 Budget Request and Legislative Proposals for the SBA"

March 9, 2006

Madam Chair and Members of the Committee, I am pleased to submit the views of Women Impacting Public Policy (WIPP) on the proposed FY2007 budget for the Small Business Administration (SBA). WIPP, a bipartisan nonprofit organization, represents 550,000 women in business nationwide and 40 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.

Our support for the National Women's Business Council (NWBC) remains strong and we are pleased the Administration recognizes its importance to the women's business community by continuing to fund the Council at $743,000. The NWBC plays a key advisory role to the Administration and to the Congress on women's business policy.

We also commend the Administration for continuing to fund the SCORE program at $4.95 million, but are disappointed to see that funding for this resource does not include additional funding to rebuild the Gulf Coast. Since its founding in 1964, SCORE has helped more than 7 million businesses from idea to start-up to success. SCORE represents a low cost and an excellent value for business advice from successful business men and women. By helping small businesses succeed, SCORE supports job creation in communities nationwide.

We are disappointed that the funding request for much needed counseling centers such as Women's Business Centers (WBC) and Small Business Development Centers

(SBDC) has been reduced from FY 2006 levels. The FY 07 budget request allows for $11.8 million in funding for WBCs and $87.1 million for SBDCs, a reduction for both programs from previous levels. 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. According to reports by the National Women's Business Council[1] and the Center for Women's Business Research[2], women-owned businesses are increasing greatly. The estimated growth rate in the number of women-owned firms was nearly twice that of all firms (17% vs. 9%), and employment expanded at twice the rate of all firms (24% vs. 12%). This further underlines the need for resources dedicated to women-owned businesses through Women's Business Centers.

Furthermore, we echo the sentiments of WIPP's coalition partner, the Association of Women's Business Centers, in expressing our concern for the reduced funding level and request that funds be appropriated consistent with the current authorized level of $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. This level of funding would also help each Center meets its administrative requirements to serve women business owners.

In FY05, the Congress required that 48% of the WBC funding go toward sustainability (existing) Centers. We are disappointed that the SBA has chosen again not

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[1] National Women's Business Council, *Analyzing the Economic Impact*, September 2004
[2] Center for Women's Business Research, 2003 and 2004

to include that funding formula in its FY07 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 or transitioned into a self-sustaining mode. It just is not good business to fund new centers and stop funding the existing centers which have shown a record of success. 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's 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 FY07.

We regret that the Administration has chosen not to request funding for the Microloan and Microloan Technical Assistance program. 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 and is the single largest source of funding for microenterprises. 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. We urge the Congress to reinstate funding for the Microloan and Microloan Technical Assistance programs.

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.

We commend the SBA for recognizing the vital role that Procurement Center Representatives (PCRs) play in providing critical technical assistance for small business. The SBA has stated 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. We believe a critical need in SBA Regional Offices is procurement expertise and introductions to regional government installations. SBA Regional Offices do not currently have the personnel or the expertise to carry out this critical assistance to small business owners.

WIPP commends the SBA for its program goals for FY07 that include identifying and mitigating regulatory and statutory barriers to contracting for small businesses and identifying contracting opportunities through increased Electronic Procurement Contracting Representative (e-PCRs). We look forward to the regulations SBA states it will promulgate in FY06 to bring the Women-Owned Small Business Federal Contract Assistance Program, included in SBA's Reauthorization Act (P.L. 106-554), to fruition. Failure to implement this program has cost women businesses billions of dollars in federal contracting dollars.

Thank you for the opportunity to submit our comments on the FY07 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.

SBEA
Small Business Exporters Association

Hon. John Kerry
Ranking Democrat
Committee on Small Business and Entrepreneurship
U.S. Senate
Washington, DC 20510

2 March 2006

Dear Senator Kerry,

Thank you for requesting SBEA's comments on the proposed SBA budget. On behalf of SBEA and the exporting members of our affiliated organization, the National Small Business Association, we want to draw your attention to an important small business and export promotion priority in that budget.

Export transactions often require special financing, yet many exporters lack knowledge of how obtain and use that financing. SBA has addressed that need with remarkable success by placing export finance specialists in 16 of the federal government's U. S. Export Assistance Centers. These specialists reach smaller exporters *where they operate* across the country.

At a cost to the taxpayers of less than **$2 million** a year, this small group of export finance specialists has obtained bank financing for more than **$10 *billion*** in U.S. exports since 1999. According to U.S. Department of Commerce and the Bureau of Labor Statistics, each $1 billion in U.S. exports generates an average of 14,000 U.S. jobs. And those jobs pay, on average, 18% more than comparable wages at non-exporting firms. Thus the $10 billion in export sales financed by the USEAC financing specialists helped create over **140,000 new, high-paying American jobs.**

Senator Kerry, this program is yielding astonishing dividends. It is constructively aiding two key national priorities - job creation and trade deficit reduction. Its cost is more than covered by the taxes paid by workers who obtain new jobs because of it. It is without question one of the U.S. government's most successful and cost-effective export promotion efforts.

For FY07, the SBA budget calls for simply the "same amount" to be spent on this effort as in the previous Fiscal Year. This approach was attempted last year and it was unsuccessful. *Less money* was actually spent on the program than previously. Rather than debating whether to fund the program at last year's level, we should be strengthening it.

SBEA urges Congress to:

- return the SBA finance specialists in the USEAC's to the line item status they were accorded prior to FY06.
- increase the program funding to $5 million.

If you have any questions about this matter, please feel free to contact us.

Sincerely,
James Morrison
President

The Small Business Exporters Association of the United States
1156 15th St. NW, Suite 1100 Washington, DC 20005 (202) 659-9320 Fax: (202) 872-8543
E-mail: info@sbea.org, Web site: www.sbea.org.

TESTIMONY FOR THE RECORD

ON THE

U.S. SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

HEARING ON THE FISCAL YEAR 2007 BUDGET
FOR THE U.S. SMALL BUSINESS ADMINISTRATION

WASHINGTON, D.C.
MARCH 9, 2006

SUBMITTED BY

CHRIS MCNEIL, JR.
CHAIRMAN

NATIVE AMERICAN CONTRACTORS ASSOCIATION

The Native American Contractors Association (NACA) is honored and appreciates the opportunity to submit testimony for the record of the United States Senate Committee on Small Business and Entrepreneurship in support of the Fiscal Year 2007 budget for the U.S. Small Business Administration (SBA). The Native American Contractors Association was formed to increase the awareness of the benefits of using Indian Tribes, Alaska Native Corporations and Native Hawaiian Organizations (NHO) to provide goods and services to the federal government. The mission of NACA is to enhance self-determination through preservation of government contracting participation based on the government-to-government relationship between Native Americans and the federal government. For reasons that will be explained below, of all Federal agencies, the SBA has the unique role and obligation to assist in the development of small businesses and especially small businesses owned and controlled by Native Americans, regardless of whether these businesses are owned by individuals, a community, families, tribes or Alaska Native Corporations. Because of the unique relationship and duties of the SBA to the Native American people and businesses owned by them, NACA is in a special position to provide insights of the concerns of these Native Americans and businesses owned by them.

The Native American Contractors Association (NACA) is working to enhance the economic self-sufficiency of America's indigenous people. We are working to create a brighter future for Indian tribes and Alaska Natives and Native Hawaiian organizations – whose members are among the poorest and most under-employed in America. NACA strives to create opportunities for Native Americans to become economically self-sufficient by enabling them to compete more effectively in the marketplace for government contracts. Unlike other American small businesses, for whom profits generally go to one individual or one family, the profits from Native American corporations owned by Tribes and Alaska Native Corporations (ANC) are shared by hundreds – and sometimes even thousands – of tribal members. The profits earned by Native Americans and Alaska Native Corporations provide dividends, job training programs, scholarships, healthcare clinics, social service programs and cultural programs for their communities. Contracting profits are an essential source of revenue to support vibrant, healthy Native communities in some of the poorest regions where unemployment and poverty rates are disproportionately high -- often staggering.

To help overcome barriers and impediments to Native American economic development, Congress forged one of its most successful federal initiatives for Indian tribes, Alaska Native Corporations and Native Hawaiian Organizations (Native Americans) in making them eligible to participate in the Small Business Act's Section

8(a) program. This business development program is intended to help small businesses be successful for the future. The Native American contracting provisions that Congress enacted recognize the unique status of Indian tribes, Alaska Native Corporations and Native Hawaiian Organizations and are based on the federal government's trust responsibility to Native communities. The federal government has a fiduciary duty to promote Native American economic development and self-sufficiency.

It took almost twenty years, for Native American contractors to show progress in participating in the federal market place and they are just now starting to achieve a level of success in the 8(a) program. With the federal government buying nearly $300 billion in goods and services annually, and Congress imposing a statutory goal of awarding 23 percent of all federal contract dollars to small businesses, Native-owned businesses are working harder than ever to match their business capabilities with federal contracting opportunities.

Operating businesses owned by Native Americans, just starting or in a growth stage, can benefit from the wide-range of services the SBA offers—support for government contractors, access to capital, management and technical assistance, and export assistance—just to name a few. It is important to point out that the SBA's 8(a) program is not an exclusive fast track to find government contracts. SBA accomplishes its goals by building community-based small businesses, which in turn revitalizes neighborhoods, helps develop the economy in Indian country, creates jobs, and encourages economic growth. SBA uses a number of assistance intervention tools, ranging from contract support to low-interest loans for site acquisition, construction, and the purchase of new or upgraded equipment.

NACA's concern regarding the FY 2007 budget request for the SBA is, simply, that the SBA has sufficient resources to carry out its obligations and missions given to it by Congress -- especially its trust obligations to Native Americans. We know that the participation of Native American owned businesses in the 8(a) program and other programs of the Federal government has grown. Adding to SBA's workload has been the burdensome job of trying to respond to the various needs of small businesses and individual entrepreneurs devastated by Hurricanes Katrina and Rita. Now is not the ideal time to reduce the budget of the agency uniquely designed to address these constituencies.

While we understand that federal government procurement data, including SBA's, do not adequately account for all contracting performed by businesses owned by Native Americans, tribes, or Alaska Native Corporations, our own records show that in 1998 there were about 40 companies owned by Alaska Native Corporations. In 2006 there are now over 164 companies owned by Alaska Native Corporations. A survey of the 13 Alaska Native Regional Corporations and 2 Village Corporations found that they generated $2.4 billion in government contracting gross revenue of 2004 which was up from gross revenue of $1.8 billion in 2003. (These figures reflect contracting dollars from 8(a) contracting and other Federal government contracting).

Now since 1998, while there has been a four time growth in the number of businesses that participate in the 8(a) program and a significant growth in Indian tribe and Alaska Native Corporation businesses in the Federal government contracting market, the SBA on a whole has experienced over 37% reduction in personnel. The Alaska District Office of the SBA has experienced an almost 45% reduction in personnel just during this last year when 5 of 12 district office employees took advantage of the SBA's early retirement initiative. None of those five people has been replaced in the District Office. NACA is concerned that since 1998 the SBA as a whole has experienced an even greater reduction in personnel and programs directed to serve Native Americans. How can the Bush Administration or the Congress expect the SBA to administer its programs properly and be vigilant for waste, fraud and abuse in those programs, when cuts to the personnel and the programs have not only eliminated Federal bureaucratic excess but also have cut into the very ability of the agency to perform its duties. We are especially concerned about these cuts inhibiting the ability of Native American companies to participate fully in the 8(a) program—one of the most successful federal initiatives that shows promise in helping Native Americans remove financial barriers and create sustainable economies.

NACA wants to make it very clear that we know the SBA's Alaska District Office employees are dedicated Federal employees and among the best in the Nation. They are examples of the government striving to make employees do more with far less. The people are good people who serve the taxpayers and the customers of the U.S. Small Business Administration. They deserve all of the accolades that they can be given. The Alaska District Office has strong leadership with the new District Director and newly appointed Deputy District Director. The reality is, however, that they cannot do the ever-increasing workload on their own without additional resources. They must be able to replace the personnel that they have lost.

More broadly speaking, the federal government, including the SBA, has a federal trust obligation to Native Americans. This includes promoting policies and programs that increase economic development and strengthen sustainable economies to support Native communities. The Federal government has an obligation to review and coordinate programs for economic development directed to Native Americans and directed to help economic development in Indian country. Native American participation in the 8(a) program helps fulfill that obligation. The federal government, with the SBA in the lead, also has an ongoing obligation to assist all small businesses in capturing a fair share of the federal government market for goods and services. Businesses owned by Native Americans, Indian tribes, Alaska Native Corporations, and Native Hawaiian Organizations are only part SBA's overall responsibility to promote small business participation in both the government and commercial marketplaces. The most important fact that SBA and all small businesses must remember is that the enormity of the federal market affords plenty of opportunity for all small businesses to participate and for the Federal government to be able to fulfill its responsibilities to them without unduly limiting contracting opportunities to others. The Native American Contractors Association urges the Committee to address these program funding and personnel needs of the Small Business Administration.

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

MAY 1 2 2006

Weston J. Coulam
Staff Director
US Senate Committee on Small Business and Entrepreneurship
Washington, DC 20510

Dear Wes:

March

On Thursday, ~~February~~ 9, 2006, Senator Snowe requested additional information from Administrator Barreto during the hearing discussing the President's FY 2007 Budget Request. Attached you will find the information requested and answers to several of the Chair's questions.

If you have any questions, please contact me directly at 202-205-6700.

Sincerely,

C. Edward Rowe, III
Associate Administrator
Congressional & Legislative Affairs
Small Business Administration

1. The number of jobs created or retained in FY 2005 by each of SBA's programs.

GCBD
Government contracting dollars going to small businesses have grown significantly since FY 2000. There were $20 billion more in small business prime contracts in FY 2004 then in FY 2000, supporting an estimated 156,000 jobs.

CAP ACCESS

FY 2003:	**7(a)** 460,469	**504** 127,475
FY 2004:	**7(a)** 538,658	**504** 152,287
FY 2005:	**7(a)** 662,133	**504** 135,022

ED
For 2004

SBDC*	Jobs created - 72,922
	Jobs retained - 95,658
WBC*	Jobs created - 9,442
SCORE	No number reported

EDMISII does have provisions for reporting this information, but since we just implemented the new system at the beginning of this FY, data will not be available until January 2007
***Both sets of numbers are self-reported by the partner and are not "official" SBA numbers.**

2. An explanation of why the SBA's statistics for entrepreneurial development programs are more accurate for FY2005 than for other years, and the reason for a decrease in the number of clients counseled and trained in the Small Business Development Centers (SBDCs) and SCORE.

We have worked with our resource partners to create more consistent client definitions so that we have a consistent way of evaluating the impact of our resource partners.

One of the agency's main objectives is to continue improving the quality of the management and technical assistance data collected. It is important that we have complete, consistent and accurate data in order to measure the effectiveness and efficiency of SBA's assistance.

Recently, SBA's made the client definitions uniform for all ED programs. The definitions were implemented in FY 2005 for all programs except SCORE. SCORE began implementation at that time but did not fully implement until FY 2006.

The use of consistent client definitions had a measurable impact on SCORE as well as the other ED programs. Consistency prevents SBDC's, SCORE and WBCs from counting counseling the same business multiple times, as each program may have worked together with them. As a result, these changes are making marked differences in program data when compared to previous years, but the net effect will be to improve the SBA's ability to compare and contrast efficiencies and effectiveness among ED Programs.

3. The actual number of clients counseled and trained in the SBDCs, Women's Business Centers, and SCORE for 2001-2004.

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
SCORE	387,938	440,293	444,310	468,152	403,724
SBDC	609,652	651,306	687,535	725,799	706,501
WBC	60,767	85,748	106,612	122,712	144,316

4. A copy of the SBA's current Disaster Management Plan, and a copy of the plan as it was in August 2005 (and any intervening versions, if such exist).

In the past, planning for major or catastrophic events was included in a larger manual covering all operating procedures.

Disaster Assistance is now working on changing some of their procedures and plans based on experiences from the 2005 Hurricane season. Once complete, these will then be compiled into one document that is more easily identified. We will provide the Committee with this Plan once finalized.

5. The number of Microloan borrowers receiving loans in FY 2005 that the SBA estimates would have qualified for 7(a) loans.

The SBA is unable to estimate how many of the 2,486 microborrowers who received SBA Microloans would qualify for loans under the 7(a) loan program. We would have to evaluate each borrower on a case-by-case basis.

6. An explanation of why the SBA de-activated or terminated 50 loss verifiers when there continues to be a backlog of over 2,700 disaster loan applications in that process.

Personnel are released based on the level of work remaining in their field of expertise.

Currently SBA has 99% of the loss verifications completed for Hurricanes Katrina, Rita and Wilma. We have sufficient loss verifiers on board to inspect the disaster damages for the 2005 hurricanes as well as perform the inspections on all of the current declared disasters the Agency is handling.

The number of Hurricane Katrina, Rita, Wilma original verifications that remain to be completed is 1,358, and we have more than 300 loss verifiers currently on board (figures are as of cob 5/2/06). SBA has completed over 316,266 loss verifications. A typical loss verification requires 3-5 days under the current workload, from the time the file is ready for loss verification to when loss verification is complete by the department, assuming the victims are available to meet with the inspector.