MARKUP OF THE SMALL BUSINESS ADMINISTRATION FISCAL YEAR 2012 BUDGET

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

MARKUP HELD
MARCH 15, 2011

Small Business Committee Document Number 112–005
Available via the GPO Website: http://www.fdsys.gov

U.S. GOVERNMENT PRINTING OFFICE

65–518 WASHINGTON : 2011

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MARKUP OF THE SMALL BUSINESS ADMINISTRATION FISCAL YEAR 2012 BUDGET

TUESDAY, MARCH 15, 2011

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 1:34 p.m., in Room 2360, Rayburn House Office Building, Hon. Sam Graves [chairman of the Committee] presiding.

Present: Representatives Graves, Coffman, Mulvaney, Tipton, Fleischmann, West, Ellmers, Walsh, Barletta, Hanna, Velázquez, Schrader, Altmire, Clarke, Cicilline, Owens, and Keating.

Chairman GRAVES. We will go ahead and call this markup to order.

Two weeks ago, the Committee heard from Administrator Mills about the Small Business Administration's budget for 2012. The Committee now has the opportunity to provide its opinion on the budget for the SBA. The Views and Estimates considered today will be transmitted to Chairman Ryan for incorporation into the Congressional budget resolution.

The past few years have been very difficult for small businesses. They have had their credit lines cut, they have lost customers, and they have laid off workers. And these businesses have had to reduce their expenses, including overhead.

The federal government faces very similar constraints, and the chasm of the deficit requires tough choices to be made. There appears to be no effort put forth by the Administration to eliminate duplicative programs that are costing taxpayers millions of dollars.

The Views and Estimates before us cut nearly $100 million from the SBA budget. Fourteen programs are defunded because they duplicate existing programs at the SBA or they are duplicated at other agencies. Other programs receive no recommendations of funds where there is an absence of any evidence that they are actually helping small businesses create new jobs.

Despite these cuts, the core functions of the SBA—to make capital available, to provide advice, and to increase the utilization of small businesses as federal government contractors—is preserved. In fact, through some very judicious reallocation of funds, the services available to entrepreneurs will be improved over the SBA budget proposal that was given to us.

The Committee recognizes the potential for fraud and abuse in various SBA programs. And, as a result, the Views and Estimates provide additional funds for modernizing the Loan Management

Accounting System and the Office of Inspector General to address those very concerns.

And, finally, but for the need to fund SBA guaranteed lending programs, without which small businesses cannot obtain needed capital to create jobs, the Views and Estimates under consideration today represents a $155 million cut in the SBA budget request for fiscal year 2010.

I now recognize the ranking member for opening remarks.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Today's consideration of the Committee's Views and Estimates on the SBA budget proposal could not be happening at a more critical time. In recent months, it has become clear that the economy is showing progress on many fronts; however, employment gains are lagging. And it is in this respect that the SBA can play an important role.

Unfortunately, the SBA continues putting its own unauthorized programs ahead of other proven initiatives. This includes seven initiatives, at a cost of more than $50 million. Yet, no performance metrics accompany these sizeable requests. We all need to tighten our belt, and it begins with proposals like this.

Just as the administration is creating its own programs outside of the legislative process, it is defunding initiatives that have been documented to have a pattern of success. The SBDC programs, for instance, which saw its core budget cut by $10 million, produces nearly $3 in Federal revenue for every $1 spent. It simply makes no sense to divert money from reputable programs and give it to the agency's untested projects.

The SBA also continues picking which programs to administer and which to overlook. It sees fit to implement the 504 refinancing and the intermediary pilot programs, even though they risk taxpayers' dollars excessively and offer little in the way of meaningful job creation. And over the past 5 years, the SBA has dumped millions into an ineffective IT system, the Loan Management Accounting System. But when it comes to other initiatives, such as the Increased Veterans Participation Program, which was passed into law 3 years ago, the agency cannot find any money.

Little attention is also paid to solving SBA's most pressing problems, such as the ongoing fraud in its contracting and delegated authority in the lending programs. If we are going to spend additional money, it should go toward cleaning up waste and abuse so that the agency's existing programs actually work and help small businesses.

With regard to the majority's Views and Estimates letter, I support several provisions. The letter recommends the elimination of several unauthorized pilot programs, as well as the questionable initiatives created in the Small Business Jobs Act of 2010. It is correct to terminate those programs if they have not demonstrated any value to the taxpayer.

However, there are several areas of concern. By proposing to eliminate funding for the Veterans Business Outreach Center, it is limiting the ability of the 190,000 veterans from Iraq and Afghanistan to launch their own businesses. Veterans who have a high rate of entrepreneurship need more outreach, not less, regardless of the cost. As we seek to tighten the SBA's belt, we should not be

doing so at the expense of those who have already sacrificed so much for our Nation. On this basis alone, Members should take pause in adopting these views.

With regard to ending frivolous programs, we missed an opportunity to send a clear message on the administration's proposed SBIC subprograms. The Views letter sent inconsistent signals by first stating that funds should not be made available for these initiatives; then, it seemingly contradicts itself by stating that, if a new program is created, the SBA should do so with a separate credit subsidy rate. This gives the agency at least tacit approval to go forward with this unauthorized project. As a result, the Views are permitting the exact sort of wasteful spending that we are concerned with stopping.

I am concerned regarding all other wasteful unauthorized programs in any form, and we will make this clear in our Views.

As we all know, it is not uncommon to disagree on budget priorities. While the chairman and I may not fully agree on our Views, I think it is clear that we are both disappointed in the agency's priorities. The inconsistency in its funding request is indicative of an agency that needs to rethink its priorities.

Just as the recent downturn required entrepreneurs to think more strategically, the SBA should be doing the same. What this Committee needs to see is a refocusing on initiatives that have positively impacted business owners while giving taxpayers a reasonable return on their investment.

With that, I yield back.

Chairman GRAVES. Thank you.

Are there any other Members who wish to be recognized for a statement on the Views and Estimates?

Mr. Cicilline.

Mr. CICILLINE. Thank you, Mr. Chairman. I do have some remarks that I would like to, with unanimous consent, ask be included in the record.

Chairman GRAVES. Thank you very much. No objection, we will include them in the record.

Any other Members wish to be heard?

The Committee now moves to the consideration of the Views and Estimates letter.

The clerk will read the title of the document.

The CLERK. Views and Estimates of the Committee on Small Business on matters to be set forth in the Concurrent Resolution on the Budget for Fiscal Year 2012.

SAM GRAVES, MISSOURI
CHAIRMAN

NYDIA M. VELAZQUEZ, NEW YORK
RANKING MEMBER

Congress of the United States

U.S. House of Representatives

Committee on Small Business

2361 Rayburn House Office Building
Washington, DC 20515-6315

March 17, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
United States House of Representatives
309 Cannon House Office Building
Washington, DC 20515

Dear Chairman Ryan:

Pursuant to clause 4(f) of Rule X of the Rules of the House and § 301(d) of the Congressional Budget Act of 1974, 2 U.S.C. § 632(d), I am transmitting the "Views and Estimates of the Committee on Small Business on Matters to be set forth in the Concurrent Resolution on the Budget for Fiscal Year 2012." Dissenting views will be transmitted separately by Members of the Committee.

The Committee approved the Views and Estimates contained herein on March 15, 2011 by a _____ vote.

Should you or your staff have further questions regarding this document, please contact the Chief Counsel for the Committee, Mr. Barry Pineles, at x55821.

Sincerely,

Sam Graves
Chairman

Enclosure

Views and Estimates of the Committee on Small Business on Matters to be set forth in the Concurrent Resolution on the Budget for Fiscal Year 2012

Pursuant to clause 4(f) of Rule X of the Rules of the House and § 301(d) of the Congressional Budget Act of 1974, 2 U.S.C. § 632(d), the Committee on Small Business is transmitting herein: (1) its views and estimates on all matters within its jurisdiction or functions to be set forth in the concurrent resolution on the budget for Fiscal Year 2012; and (2) recommendations for improved governmental performance.

The budget request for the Small Business Administration (SBA) in FY 2012 is $985.44 million – an increase of $161.4 million from FY 2010. The two main reasons for the increase are: (1) the need to account for the costs, as required by the Federal Credit Reform Act, of the primary SBA lending programs; and (2) the costs to administer the SBA Disaster Loan Program. The Committee believes that the budget request needs to trim funds from duplicative and ineffective programs and reallocate some of those funds to programs that will be more helpful to America's entrepreneurs.

Capital Access Programs

The Committee has held hearings over the past three years in which numerous small businesses testified that they have had significant difficulty in obtaining needed credit to operate. In some cases, businesses with solid operating histories have seen their credit lines reduced or eliminated. Unlike large enterprises that can seek out funds from commercial debt and equity markets, small businesses must rely on their own personal assets, retained earnings, and commercial bank funds for needed capital. With the retrenchment in the normal commercial credit markets, the SBA capital access programs, provide businesses with necessary capital and credit to create jobs that the economy needs.

7(a) Guaranteed Loan Program

The 7(a) Loan Program is the primary program for providing financial assistance to entrepreneurs. The program utilizes private lenders who make loans and receive guarantees from the SBA that a portion (varying from 50 to 85 percent of the loan) will be repaid by the United States Treasury even if the borrower defaults. Until FY 2006, Congress appropriated funds to supplement the fees charged by the SBA in order to cover the cost of the program as required by the Federal Credit Reform Act.[1] From FY 2005 until FY 2010, fees covered the cost of the program without the need for an appropriation. However, the recent economic downturn in conjunction with existing statutory limits on the fees that the SBA can charge to lenders and borrowers makes it impossible to cover the costs of the program without an additional appropriation. The

[1] Under the Federal Credit Reform Act, the SBA must determine the costs needed to cover potential losses from the cohort of loans made in the fiscal year in which the loans were made. Determining the net present value involves estimating expected loan defaults in the future less any recoveries of collateral on the defaulted loans. According to the agency's estimates, defaults are only expected to rise very modestly; the real issue is the expected recoveries will be lower due to reductions in the value of collateral.

SBA requests budget authority of $129 million which includes an additional $87.5 million of new budget authority. The request would cover the costs associated with issuing guarantees on $16.5 billion in lending. Of this, $14.5 billion is conventional 7(a) loans.[2] Approximately, $125 million of the $129 million would be devoted to conventional 7(a) lending.[3]

Given the reduced access to normal commercial credit for small businesses, the Committee supports the need for funding the 7(a) Loan Program. While the Committee will consider an increase in fees paid by borrowers and lenders to reduce the funds that must be appropriated, that may be counterproductive as it would impose additional costs on small businesses as they are trying to create jobs needed to resuscitate the economy. The Committee also considered reducing the overall size of the conventional 7(a) loan authority from $14.5 billion to $14 billion since the SBA has never reached that loan level. However, given the fact that the savings would be relatively small – about $4.4 million dollars – and could crimp operation of the program if loan demand is unusually high (something that might be expected in a recovering economy), the Committee decided to find savings in other areas of the SBA budget.[4] The Committee concurs with the decision to cease operation of the Community Express Loan program. Those savings should not be transferred to any new pilot program; any such savings should be used to either reduce the subsidy needed to operate the program or used to improve the information technology supporting the agency's lending operations.

However, the Committee strongly disagrees with the establishment of new pilot programs under the 7(a) Loan Program. The pilot programs are established without direction from Congress or input from lenders or borrowers. As such, the programs often have internal problems that affect the overall subsidy rate of the 7(a) Loan Program as demonstrated by the losses in the Community Express Loan Program. The Committee recommends that no funds be allocated from the 7(a) Loan Program account be used to establish any new pilot programs. To the extent that the Committee on the Budget rejects that recommendation, it should impose separate subsidy rates for any new 7(a) Loan pilot program.

The Certified Development Company Loan Program

The Certified Development Company (CDC or colloquially the "504 loan") program utilizes both private and government-guaranteed financing to provide long-term financing on larger capital projects that provide economic development to local communities. Loans made by CDCs must meet certain public policy goals (such as assisting

[2] SBA's budget request parses the 7(a) Loan Guarantee program into three subsidiary parts: (1) conventional 7(a) loans; (2) 7(a) loans used for revolving lines of credit; and (3) floor plan financing for automobile, boat, recreational vehicle, and manufactured home dealers. Each has a different subsidy calculation. For purposes of these views and estimates, the critical lending component is the conventional 7(a) loans, i.e., loans other than revolving credit or floor plan financing.

[3] For each billion dollars in reduced loan authority, the savings on the total appropriation would be approximately $8.7 million dollars.

[4] If funds are overappropriated, i.e., the SBA never reaches the $14.5 billion in conventional 7(a) lending, those funds could be returned to the Treasury or carried over to defray costs for FY 2013.

manufacturers or promoting economic development) and demonstrate that the loans will create jobs.

Fees are charged to borrowers and lenders to cover the cost of the program in order to drive the subsidy rate to zero, i.e., so that there would be no appropriation needed to cover the cost of the program under the Federal Credit Reform Act. Despite the statutory mandate to maintain a zero subsidy, Congress also limited the size of fees that the SBA could impose on CDCs and borrowers. As with the 7(a) Loan Program, economic conditions (particularly lower than expected recoveries on the value of collateral)[5] have made it impossible for the SBA to continue operating the CDC Program without an appropriation. The SBA requested an $81.8 million dollars subsidy to cover $7.5 billion in lending. Given the value that CDC lending has to small businesses seeking to create jobs, the Committee believes it would be inappropriate to reduce the $7.5 billion in an effort to save money. There are other areas that could reduce the overall SBA budget without undermining the opportunities provided by this program.

Commercial Refinancing under the CDC Program

As an economic development program that was aimed at creating jobs, small businesses could not use loans from CDCs to refinance existing debt.[6] The Small Business Jobs Act of 2010, Pub. L. No. 111-240, created a temporary, two-year program that authorizes refinancing of existing debt using the CDC Loan Program. The program will not require borrowers to create jobs as with conventional CDC loans.

The Committee also is troubled by the potential risk that the program will pose to taxpayers. According to the SBA, that program will have a zero subsidy rate because the program authorized the SBA to charge additional fees to cover any additional cost of this temporary refinancing program. In regulations, published on February 17, 2011, the SBA claimed that the costs would be covered by a new ongoing fee of .2934 percent of the total outstanding amount guaranteed. Given the opacity of the SBA's calculation of the fee, the Committee does not believe that it will cover the subsidy costs of the program, much less the SBA's administrative costs. This is exacerbated by the SBA allowing loans that are 30 days in arrears to be refinanced (calling into question the viability of the business). The risks to taxpayers from this program might be worth it if there was a potential for job creation from the refinancing but that is not required. As a result, the Committee will examine the program for termination. In the interim, no funds should be allocated to cover the SBA's administrative costs in overseeing this program.

[5] Most of the collateral for CDC loans is in commercial real estate. Although that market has not experienced the precipitous drop that occurred in residential markets, commercial real estate values have declined. As a result, the SBA was required to recalculate the expected value of collateral recovered on defaulted loans and given the decline in the market, estimated recoveries would decline thereby raising the subsidy rate.

[6] The basic argument is that refinancing does not create jobs but simply lowers the costs to a borrower.

Microloans

The Microloan Program is a microfinancing program in which very small loans are made to very high risk customers, usually those that would not consider utilizing banks. The SBA makes loans, at below market rates, to intermediaries who then turn around and lend to small businesses. The default rate on loans made to intermediaries is nearly zero but the cost of the program primarily stems from cost between market interest rates and the interest rates charged to intermediaries. The SBA requests an appropriation of $3.8 million to cover lending to intermediaries of $25 million. Given the modest cost of the subsidy and the effectiveness of the program in supporting the underserved, including skilled craftsman who have been laid off from work, the modest investment should continue.

Small Business Lending Intermediary Pilot Program

Under the program, 20 intermediaries will be loaned $1,000,000 each to make loans of up to $200,000 to small businesses. The intermediaries will not have to repay these $1,000,000 loans for a period of two years (either principal or interest) and then the interest rate is one percent. In short, this program could wind up making loans to exactly 100 businesses (each intermediary making $200,000 loans to five businesses). According to Congress, the purpose of the program is to alleviate the lack of credit availability to small businesses. Considering that there are about 28 million small businesses, this program could be limited to a total of less than three-ten thousandths of one percent of the small businesses in the United States. And according to the President's budget, the subsidy rate for this program is almost 30 percent. In contrast, the 7(a) Loan Program subsidy rate is less than one percent. Thus, the program helps very few businesses at a high risk to the government treasury. Given the risk and the lack of assistance provided to small businesses, the $4 million appropriated for the program should be rescinded.

Small Business Investment Company Program

The Small Business Investment Company (SBIC) program provides that holders of securities issued by the SBICs will be repaid by the federal government. The program was instituted in an effort to ensure that small businesses could obtain equity as well as debt financing.[7] Although an oversimplification, the SBIC program operates by the federal government guaranteeing an instrument sold by the SBIC into the commercial market. The SBIC is obligated to repay the federal government generally from proceeds from the investments it makes.

The debenture SBIC program is designed to provide equity injections to small businesses that have been operational and have a track record of cash-flow and profits. Debenture SBICs have invested in enterprises such as Callaway Golf, Outback Steakhouse, Dell

[7] The Committee on Small Business held hearings in the 110th Congress showing that small businesses still have difficulty raising equity capital. This problem has been compounded by additional burdens associated with Sarbanes-Oxley compliance and turmoil in the commercial credit markets.

Computer, and Nike. The program is financially sound because the structure of repayments ensures that the government will not suffer significant losses.[8] Thus, no changes are needed to the program and it operates on a zero subsidy basis without an appropriation. The SBA budget is fully supportive of this program and we concur in that recommendation.

The Renewable Fuels Capital Investment Company Program was created in the 2007 Energy bill and modeled after debenture SBICs as an incentive to invest in renewable fuel facilities. Sufficient incentives already exist commercially to build renewable fuel facilities. Furthermore, other federal programs exist to provide such incentives. Given the duplicative nature of this program, the Committee concurs with the FY 2012 budget request that no funds should be allocated to commence its operation.

The SBA proposes two new initiatives which appear to be operating out of the debenture SBIC program – an impacting investing initiative and an innovation fund. Neither initiative has received authority from Congress. Furthermore, it appears that the initiatives would use existing uncommitted participating debenture funds. However, given the fact that these are new programs without the track record of the current debenture SBIC program, the Committee strongly recommends that no funds be provided for the establishment of these two programs. In addition, the Committee on the Budget should require a separate subsidy rate be calculated for each of these two programs. This ensures that any problems in the development of these initiatives (should the SBA go ahead with their development) will protect the debenture SBIC from an increase in fees to cover potential losses in the new initiatives.

The participating security program became operational in 1994. The program was designed to provide equity capital to start-up small businesses – those without a significant operating history. The program operates under a significantly different reimbursement regime than that for the debenture program because the SBICs must wait significantly longer to obtain returns on their equity investments. When the participating security program started, it was quite successful as market conditions were favorable for equity provision to startups. As market conditions changed, the viability of startups changed and the financial health of participating security SBICs changed. There are existing estimates that the financial portfolio, if liquidated today, would result in losses to the federal treasury of $2.4 billion. The program has not provided additional funds to SBICs in more than seven years and the FY 2012 budget request does not seek to provide participating security SBICs with additional funds for investment. The Committee concurs in that recommendation.

Surety Bond Program

Small federal contractors, particularly in the construction industry, are required to post bonds in order to protect the federal government against the failure to complete a project. Title IV of the Small Business Investment Act of 1958 authorizes the SBA to reimburse

[8] Without going into detail beyond the scope of this letter, the debenture SBIC program operates in terms more analogous to the SBA's 7(a) and CDC programs.

surety bond writers up to 90 percent of the losses if a small business contractor defaults on a contract to which a surety issued a bond. The program operates on a revolving fund account and sufficient funds exist in the program so that no appropriation is needed. The Committee concurs that the program should not require any appropriated funds to cover the costs of defaults by contractors.

Disaster Loans

The SBA is the primary provider of assistance to the homeowners and small businesses after a natural disaster. The SBA does not request any additional funds for disaster assistance in FY 2012 because there is sufficient carryover from appropriations that Congress has made in the past to deal with a normal year's disasters. A disaster on the scope of the 9/11 terrorist attacks, Hurricane Katrina, or a major earthquake in California would not be covered by existing funds in the disaster loan account. Typically such disasters require emergency funds that are provided in a supplemental appropriations bill. It would be impossible to ascertain on an a priori basis the level of funds needed to cover a disaster on the scale of a Hurricane Katrina or another terrorist attack. Therefore, the Committee concurs with the SBA request to provide no additional funds for disaster loans.

Management of Capital Access Programs

There are three primary costs that the SBA must face in the management of its capital access programs: (1) personnel to oversee the programs; (2) computer technology necessary to process data; and (3) capabilities to address defaulted loans. In all three instances, the SBA severely misplaces its priorities in the FY 2012 budget request.

The administrative costs associated with the guaranteed loan programs are covered under an appropriation account separate from the rest of the SBA. The FY 2012 request reduces that account by $5 million. The Committee concurs that those savings are reasonable and any additional cuts might jeopardize the ability of the SBA to properly manage an $83 billion loan portfolio which would pose an even greater risk to the federal taxpayer. The Committee on the Budget should allocate the reductions in a manner that ensures full funding of the SBA's lender oversight function and its simplification of standard operating procedures that govern the lending programs.[9]

The administrative costs for operating[10] the disaster loan program also are budgeted under a separate account. In addition, Congress permanently authorized the SBA to transfer unused disaster lending funds to administration of the disaster loan program.

[9] The Committee expects to examine the use of standard operating procedures, essentially guidance documents, as the primary mechanism for managing the capital access programs. The proliferation of these ad hoc documents are developed without input from the public and impose undue burdens on lenders, particularly small ones.

[10] The administrative costs for this program are not simply those associated with the issuance of disaster loans. Since this is the only direct lending program that the SBA operates, the agency also must service all of these loans until they are sold. In 2008, Congress prohibited the sale of disaster loans for a period of five years after the loans were issued.

Given the drawdown of funds in the disaster funds account, the SBA will be unable to utilize all but a small portion of those funds to administer the disaster loan program. The SBA requests an additional $90.7 million to fund the administrative costs associated with the operation of the disaster loan program. This represents an approximately $22 million dollar reduction in the cost of the program from FY 2010. While the Committee is concerned about the increase, it must counterbalance that concern with the ability of the SBA to respond to significant natural disasters. In particular, funds should be set aside so the SBA can mobilize its disaster response reserve corps without undermining the ability to fund disaster lending. If the Committee learned one thing after the 2005 hurricane season, it is that capacity to respond to disasters cannot be developed after the disaster occurs. Undermining the ability of the SBA to respond to such disasters also imposes significant risks to small businesses attempting to rebuild their enterprises and communities.

The information technology needed to manage the SBA guaranteed loan portfolio is outdated and at significant risk. In particular, the agency still has not complied with a statutory mandate to have a robust modern loan management accounting system (LMAS) even though Congress directed the SBA to have it operational by 1997. In its budget request, the SBA touts the savings that come from scaling back the design of the LMAS. However, that scaling back simply means that the SBA will move from a proprietary COBOL-based system to a COBOL-based nonproprietary system in which multiple contractors might bid on maintaining the database. The Committee remains extremely concerned about the vulnerabilities of maintaining an antiquated, non-robust business loan accounting system. The Committee believes that more resources should be applied to modernizing the agency's computer system. However, until a study by the Government Accountability Office (GAO) is complete, the Committee is not yet ready to specify the funds that should be directed at improving the system or even if the system should be maintained by the SBA or some other party. Nevertheless, it is likely that the funds requested in the budget will be inadequate to develop a modern, robust and reliable LMAS. In allocating funds, the Committee strongly endorses an approach that transfers funds from other projects of the Chief Information Officer to modernization of the LMAS.

As already noted, collections on defaulted loans, particularly in the CDC Loan Program, are abysmal. In the FY 2012 Budget Credit Supplement, expected recoveries for the CDC program are expected to be about 23 cents on the dollar. This is about the historical average even in years when collateral values were rising. The best action that Congress can take is to transfer the management of defaulted loans from the SBA to CDCs and reimburse them for expenses in performing that function. The recovery is about half that in the 7(a) Loan Program where many defaults are managed by preferred lenders rather than the SBA. If the rate of recoveries on CDC loans were doubled, it probably would reduce the subsidy cost by half (a savings of at least $40 million). Reimbursing CDCs for their expenses would be less costly than paying SBA employees to seek recovery on defaulted loans. CDCs have a vested interest in maximizing their recoveries because that will in the long-run reduce fees that they are required to pay for the operation of the program. Thus, the Committee strongly endorses eliminating SBA's responsibility for

managing defaults and transferring it to CDCs. This will result in a concomitant reduction in SBA personnel.

Entrepreneurial Development Programs

There are a plethora of programs operated by the SBA in conjunction with non-federal partners to provide outreach and technical assistance to small businesses. These programs duplicate each other and programs in other agencies. In its consideration of these programs, the Committee first examined which programs had the broadest missions and best capability of meeting their federal match requirements. After making this identification, the Committee determined that programs with narrow missions or incapable of raising non-federal funds, should not receive any funding or receive significantly reduced amounts of funding. Programs with broad missions and capable of obtaining non-federal funds to help defray costs should not receive cuts or even see a modest increase to cover expenses from an expanded mission.

In particular, the Committee endorses raising slightly the funds available to Small Business Development Center grantees and maintaining the levels of current funding for SCORE. Funds should be reduced for: 7(j) technical assistance; microloan technical assistance; and the National Women's Business Council. Funding should be eliminated for the following existing programs: Women's Business Centers; Veterans Business Centers; Prime Technical Assistance; HUBZone outreach; and the Offices of Native American Affairs, and International Trade. No funds should be made available for the following initiatives: Drug-Free Workplace, Regional Innovation Clusters, and Emerging Leaders programs.

Small Business Development Centers

Small Business Development Centers deliver their services through 58 cooperative agreements with either state agencies or institutions of higher education. To the extent that a state agency is a grantee, the agency typically subcontracts that performance to an institution of higher education located in the state. These 58 grantees have established over 1,000 service centers to provide technical assistance to small businesses for: business strategy development, technology transfer, government procurement, engineering, accounting, etc. The FY 2012 budget request reduces the SBDC funding by $9.6 million. The Committee believes that SBDCs should be granted about $5 million more given the increased responsibilities that for technical assistance that results from reductions in other duplicative outreach programs. Those funds can be transferred from other programs that the Committee suggests for termination.

SCORE

SCORE provides face-to-face counseling from 389 chapter locations with 10,900 SCORE volunteers. SCORE volunteers provide the full gamut of business consultation services from development of business plans to strategic marketing to financing. SBA's SCORE database also enables small businesses to find a SCORE volunteer that best suits

the need of the small business. For example, the owner of a restaurant can find SCORE volunteers who were in the food service business. The Committee concurs with the budget request of $7 million.

7(j) Technical Assistance

Section 7(j) of the Small Business Act authorizes the Administrator to contract for the provision of management, technical, and consulting services to participants in the 8(a) government contracting business development program. Unlike other assistance programs in which any interested individual may obtain an appointment and seek advice, this program is limited solely to participants in the 8(a) program. While the assistance is useful for participants, the Committee believes that these services can be provided, in part, by other entrepreneurial development partners and personnel at the agency. Given the current fiscal condition of the United States, the Committee recommends reducing that budget by $1.1 million to $2 million. Better coordination of existing technical assistance by agency personnel, improvement in the mentor-protégé program, and better coordination with SBDCs, SCORE and services from other federal and state agencies should enable participants in the program to obtain needed technical assistance.

Microloan Technical Assistance

The keystone of the Microloan Program is not the lending that is done by intermediaries but rather the training that they provide to their borrowers so that the borrowers can operate their businesses without defaulting on loans. The Committee believes that this is a valuable and irreplaceable component of the microloan program – assisting a new class of entrepreneurs. However, testimony before the Committee reveals that a majority of training provided by microloan intermediaries is not to borrowers but to prospective borrowers, many of whom do not become borrowers. This function can be provided by other programs at the SBA and elsewhere. As a result, the Committee recommends an additional $2.5 million reduction in microloan technical assistance and requiring that all technical assistance provided by microloan intermediaries be provided to borrowers.

National Women's Business Council

The National Women's Business Council is a bipartisan federal advisory council created to serve as an independent source of advice and counsel to the President, Congress, and the SBA on economic issues of importance to women business owners. By interacting with women throughout the country, the Council develops and promotes policies and programs to help women entrepreneurs, the largest growing class of small business owners in the country. The Committee concurs that this mission is valuable but is at a loss to understand the near doubling of the Council's budget. As a result, the Committee believes that the Council, like SCORE, should maintain funding from prior years rather than increase which would translate to $1 million budget not the $1.9 million suggested in the SBA budget.

Women's Business Centers

Women's Business Centers (WBCs) provide training, counseling, and mentoring to women entrepreneurs. WBCs are public/private partnerships in which the federal government provides funds that were to be matched by private donors. However, over time, the centers became more reliant on federal funds thereby undermining the original intent of Congress in creating the WBCs. Furthermore, many of the clients are not women but men. The services provided by WBCs fundamentally are indistinguishable from that provided by SCORE and SBDCs. Given the duplication in mission and the fact that WBCs were not created to obtain permanent federal funding, the program should be terminated. A portion of those funds should be redirected to cover the $5 million increase in funding for SBDCs.

Veterans Business Outreach Centers

Veterans Business Outreach Centers (VBOCs) are modeled on SBDCs and WBCs. The SBA already provides significant assistance to veterans who are seeking to start or already operate small businesses. The VBOCs duplicate services already available from the SBA, other entrepreneurial development partners and programs available from the Department of Veterans Affairs. As a result, the Committee believes that no funding should be made available for funding VBOCs. While eliminating funds for VBOCs, other funds at the SBA for veteran business development should be maintained.

Prime Technical Assistance

Under the Program for Investment in Microentrepreneurs (PRIME), the SBA provides federal funds to community-based, regional, and national organizations that in turn will offer training and technical assistance to low-income and very low-income entrepreneurs with small businesses of five employees or less. The major focus of PRIME is to provide assistance to very small businesses that typically because of their lack of experience and education are unable to gain access to banks and other providers of capital. The services provided by PRIME duplicate other services and the Committee concurs with the SBA FY 2012 budget request to eliminate funding.

HUBZone Program

The basic purpose of the HUBZone Program is to direct federal contracts to small businesses in distressed urban and rural areas to promote economic development of these areas. Contracting officers are authorized to set aside contracts for competition among eligible HUBZone small businesses, sole source, or use bid preferences when large firms and HUBZone small businesses are in competition. HUBZones are distressed urban and rural areas characterized by chronic high unemployment and/or low household income.

Investigations by GAO have revealed vulnerabilities in the program, especially related to self-certification. Funds related to correcting these problems and improving the operations of the HUBZone program are discussed elsewhere in this document. The FY

2012 budget request allocates $2.5 million to the HUBZone program but does not explain how those funds will be utilized. However, the funds are listed under entrepreneurial outreach programs. Given the lack of an explanation and the fact that any outreach duplicate existing efforts by other entrepreneurial development programs at the SBA, the Committee believes that those funds are not needed for the HUBZone program. It is important to note that the proposed elimination of these unexplained funds should not be interpreted as a recommendation to eliminate the HUBZone Program. Rather, the Committee believes that the program can be of significant value if the SBA ultimately removes ineligible firms and contracts are made available to eligible HUBZone firms.

Office of Native American Affairs

The Office of Native American Affairs ensures that American Indians, Alaska Natives, and Native Hawaiians seeking to create, develop and expand small businesses. The services provided by this Office can be provided by other SBA programs. More significantly, there is an entire agency at the Department of Interior – the Bureau of Indian Affairs – that has far greater resources to perform outreach to Native American small businesses. As a result, the Committee urges that the funds for this Office at the SBA be terminated.

Office of International Trade

According to the SBA, the Office of International Trade enhances the ability of small businesses to compete in the global marketplace. The Small Business Jobs Act of 2010 overhauled the operation of this office by, among other things: 1) appropriating $30 million for a state trade and export promotion pilot program; 2) increasing SBA employees located at the Department of Commerce Export Assistance Centers; and 3) adding 10 regional export development officers in the SBA's regional offices.

The Committee believes that the $30 million state grant program should be terminated. First, pilot programs rarely, if ever, are terminated. Second, states have been promoting exports by their businesses for decades; little rationale exists for the federal government to step into that effort.

The rationale for increasing SBA personnel at these Export Assistance Centers also is wanting. Essentially, the argument goes that Commerce Department personnel would be incapable of helping small businesses or explaining various financing programs to these small businesses. The Committee rejects that contention. Commerce Department personnel, with some minor additional training, should be able to handle advice to small businesses.

No rationale exists to assign regional trade finance specialists to SBA regional offices. Small businesses access SBA services through district offices. Placing personnel in regional offices ensures that they are unlikely to come in close contact with small businesses. Furthermore, appropriate training should provide existing district office personnel with sufficient expertise to understand the various options for international

trade finance. As a result, the Committee recommends that funding for these individuals be eliminated.

The Committee certainly understands the importance of international trade to small businesses. However, the current fiscal constraints make it impossible for this office to continue given the fact that it services are duplicated by the Department of Commerce and the Department of Agriculture's Foreign Agriculture Service. As a result, the Committee is recommending that all appropriations for the Office be eliminated, including all programs under the Office of International Trade. In total, this would save approximately $38 million ($30 million for termination of the grant program and $8 million for operation of the Office of International Trade).

Drug-Free Workplace Program

The program was enacted to promote drug-free workplace programs in the small business community. It allows intermediaries, such as SBDCs, to provide employers with guidance regarding their drug free workplace programs. The SBA provides competitive grants to intermediaries that have the best proposals for educating small businesses on developing drug free workplace programs. This program duplicates efforts by the Department of Labor to educate businesses on maintaining drug free workplaces. Therefore, the Committee concurs with the request from the SBA that funding for the program be terminated.

Regional Innovation Clusters

The SBA's Regional Innovative Cluster program awards grants to non-federal entities that in turn would help create clusters (a geographically confined grouping of firms in the same or similar industries). The SBA is asking for $12 million for FY 2012 to expand its existing cluster program. There is no evidence that the government or the private sector can artificially create clusters. Furthermore, the SBA has not provided sufficient information on the number of jobs or other efficiencies that arose from its FY 2010 clusters initiative. As a result, the Committee strongly recommends that no funds be provided for the conduct of this program.

Emerging Leaders Program

This program started in FY 2009 provides training to executives in inner city urban areas and Native American entrepreneurs. Small businesses are evaluated for their growth potential; firms' executives then are provided with 8 months of intensive training. The program originated without any funding; yet over 600 small businesses participated according to the agency. Even though there is no hard data on the success of the program (the data is self-reported by the businesses that went through the program) and the SBA was able to conduct the program without appropriated funds, the SBA is seeking $3 million for this program in FY 2012. The Committee finds that this program duplicates already existing entrepreneurial development programs of the SBA and does not have

good metrics for evaluating the success in the program (other than self-reporting). As a result, the Committee endorses elimination of any funds for this program.

Government Contracting Programs

One of the primary missions of the SBA is to ensure that small businesses receive a "fair proportion of the total purchases and contracts for property and services for the Government in each industry category...." 15 U.S.C. § 644(a). To achieve this objective, Congress created a number of programs designed to increase opportunities for small businesses. The SBA is requesting for FY 2012 a total of about $125 million to operate the various government contracting programs and functions at the agency.

The Committee believes that the SBA undervalues the importance of its mission to ensure that small businesses have a fair shot at winning government contracts. The issue is not about available resources but the correct deployment of those resources. In this regard, the Committee believes that the budget proposal for FY 2012 failed to allocate resources in a manner that maximizes the ability of small businesses to enter the federal procurement marketplace.

PCRs and CMRs

The SBA has three types of individuals devoted to ensuring that small businesses have maximum opportunities to provide goods and services to the federal government. They are procurement center representatives (PCRs), breakout procurement center representatives (breakout PCRs), and commercial marketing representatives (CMRs).

PCRs generally are assigned to contracting activities and work under the supervision of the contracting activity personnel (but report to the Office of Government Contracting at the SBA). They are supposed to: (1) review proposed acquisitions to recommend procurements for setting aside to small businesses or specific categories of small businesses; (2) advise contracting officers whether the acquisition strategy will prevent small businesses from competing; (3) suggest alternative contracting methodologies designed to increase the probability that small businesses will be able to compete for various procurements; (4) recommend small businesses that should be contacted about procurement solicitations; (5) appeal a contracting officer's failure to solicit from small businesses after identification of responsible small business bidders PCR or other sources; (6) review contracting activity compliance with small business contracting requirements of federal laws and federal regulations; and (7) participate in conferences designed to increase small business utilization in federal procurement.

Breakout PCRs must be assigned to major procurement activities (such as defense installation and NASA facilities). These individuals do not replace regular PCRs but work in conjunction with them. *Id.* The breakout PCRs advocate for: (1) use of full and open competition; and (2) the breakout (ergo the name) of items from contracts that could be provided by small businesses. In essence, the breakout PCR is the primary bulwark for the SBA against bundling of contracts (the procurement strategy that consolidates

contract requirements in a way that makes it difficult if not impossible for small businesses to compete for contracts) by major federal procurement activities. There are far fewer breakout center PCRs than PCRs, thus significantly limiting the ability of the SBA to fight contract bundling.

CMRs promote the use of small businesses by prime federal contractors required to submit subcontracting plans, i.e., businesses other than small. They review compliance with federal subcontracting plans. In addition, they perform market outreach to match small businesses and large prime federal contractors. Frequently, CMRs often perform other functions in addition to their efforts to find subcontracting opportunities.

PCRs and CMRs play a vital role in helping small businesses obtain federal procurement opportunities. The number of such individuals at the SBA is well short of their need. PCRs and breakout PCRs require significant procurement and technical knowledge. The functions of a CMR require less proficiency than PCRs but still is a full-time, not a part-time function. Given the technical requirements for these jobs, it would not be easy to simply have other SBA employees perform these functions.

The Committee strongly urges that some of the savings suggested elsewhere in this document be reallocated for hiring a total of 15 PCRs and breakout PCRs. We would expect that the additional PCRs would require no more than $2 million in appropriations. Furthermore, the Committee recommends that budget allocations be rearranged so that CMRs only perform the function of assisting small businesses in obtaining federal contracts. While not cuts, the Committee believes that these employees are so valuable to the hundreds of thousands of small businesses interested in the federal procurement marketplace that their cost will be recouped in savings generated by small businesses that win federal government contracts. In addition, by creating more procurement opportunities for all small businesses, including those owned by women and veterans, the Committee believes that the PCRs and CMRs will provide a greater benefit to these groups than any funds used to support WBCs or VBOCs.

Vulnerabilities in SBA Contracting Programs

There are five major programs developed by Congress to promote small business contracting opportunities. The Small Business Reserve Program requires that contracts of value between $3,000 and $100,000 be set aside only for competition among small businesses if at least two small businesses can perform the contract at a fair market price. The other programs are targeted at specific classes of small businesses are: 8(a) businesses; HUBZone businesses; service-disabled veteran-owned businesses; and women-owned businesses. The programs also enable contracting officers to limit competition to businesses within a specific category and in all cases, except small businesses owned by women, to award contracts on a sole source basis, i.e., without

competition at all. If a contract is awarded under one of these programs, the small business awardee is required to perform the majority of the work.[11]

These contracting programs present a number of vulnerabilities: (1) small businesses might misrepresent their size (and not actually be small); (2) small businesses may misrepresent their status for purposes of eligibility such as not being a woman-owned and controlled business; or (3) small businesses do not perform the necessary quantum of work on the contract. Given these vulnerabilities, there are key defenses – adequate personnel to check the small businesses and updated databases for use by contractors and federal contracting officers.

The Committee believes that the allocation of resources as reflected in the FY 2012 budget request for operation of the specific small business programs generally is adequate and appropriate.[12] However, the Committee believes that a modest sum of not more than $1 million dollars should be transferred from the 8(a) operational budget to the HUBZone program in order to uncover all ineligible firms in the latter program. Finally, the Committee strongly recommends that some of the savings elsewhere set forth in this document be used to speed up the SBA's review of its size standards. They have not been seriously reviewed in nearly 30 years and the economic structure of industries has changed dramatically in that time. This would be of significant benefit to small businesses in the federal procurement arena.

Personnel in the 10 Federal Regions

The SBA provides most of its services to small businesses through 84 district offices that are staffed with personnel knowledgeable on a variety of small business related topics. When a small business owner or entrepreneur has contact with an agency official, it is typically at a district office.[13] Those district offices are overseen by an Office of Field Operations at SBA headquarters in Washington, DC.

Despite this agency structure, the SBA also has ten regional administrators, regional communication officials and support staff. It remains unclear what management function or responsibility these regional administrators or regional offices have. Given that, the Committee believes that the position of regional administrator should be eliminated. Without regional administrators, there would be no reason to have regional offices and the Committee recommends that those offices be shuttered.

Another office at the SBA with ten regional representatives is the Office of the Chief Counsel for Advocacy. The primary responsibility of that office is to monitor agency

[11] This prohibits small firms from acting as fronts for large businesses. The first line of defense against this type of fraud is the agency's contracting officer and the contracting officer technical representative (the individuals who handle post-contract award) not the SBA.

[12] Reductions in spending on this program could be counterproductive because it could lead to an increase in fraud or other abuse of these contracting programs thereby denying legitimate small businesses of valuable opportunities.

[13] The primary exception to this would be when applying for a disaster loan. In those cases, the applicant will be dealing with on-site field personnel and disaster loan call centers.

compliance with the Regulatory Flexibility Act, a statute mandating agencies examine the impact of their proposed and final rules on small businesses. While input from small businesses is quite useful in performing that role, the office does not need regional representatives to obtain that input. As a result, the Committee believes that the Office of the Chief Counsel's regional personnel should be eliminated. However, rather than simply eliminate all ten positions from the Office of the Chief Counsel for Advocacy, the Committee recommends that five additional positions be created to review federal agency compliance with the Regulatory Flexibility Act. This would result in a net savings of five individuals in the office while boosting its capability to fight burdensome regulations inhibiting the ability of small businesses to create jobs.

District Personnel

As already noted, the SBA's primary contact with small businesses is through its district offices. The district offices are, logically enough, headed by a district director. However, in about 75 percent of the offices, there also is a deputy district director. The Committee is of the opinion that district offices do not need a separate, dedicated individual to be the deputy. If the district director is unavailable (due to vacation or illness), that person simply can appoint someone to act temporarily as the district director. The Committee strongly recommends that no monies be allocated to pay for individuals whose sole job is to act as a deputy district director. Instead, deputy district directors should be reassigned to other functions at the agencies that provide direct assistance to small businesses.

Executive Direction

The budget for executive direction, a conglomeration of various offices associated with policy and research has steadily increased since FY 2009. While this line item has increased by nearly $10 million, small businesses have been suffering through one of the worst economic downturns since the Great Depression. This demonstrates that the SBA fails to understand its priorities and mission.

Even more troubling is the fact that no explanation exists for the use of these increased funds. According to the budget documents submitted to the Committee, the additional $10 million is being used to cover the costs of operating the Office of the Chief Counsel for Advocacy. That explanation would be sensible since the Congress now requires the budget for that Office to be a separate line item. While that would at first appear to be a logical conclusion, closer analysis belies that explanation. The budget submission contains two separate costs for operating the Office of the Chief Counsel for Advocacy. Nine million dollars is allocated to that office to cover salaries and research. A different budget table reveals that the cost of running the Office of the Chief Counsel for Advocacy is $19 million. According to the budget submittal, the additional funds are needed to cover the indirect and overhead expenses of the Office of the Chief Counsel. That is an unrealistic estimation of the cost because it defies logic to conclude an office of 46 people in an agency of 2,200 people scattered throughout 84 district and 10 regional offices can account for nearly 17 percent of the SBA's total overhead of $56 million.

Given the increase and the absence of any explanation for the increase, the Committee strongly endorses the elimination of the additional $10 million in Executive Direction.

Headquarters Structure

According to the agency, there about 600 people at SBA headquarters leaving approximately 1,600 people to interact with small businesses in their field operations.[14] Given the fact that there are about 28 million small businesses in the United States, the Committee finds that the agency structure is too concentrated at headquarters in Washington, DC. This would include an Office of Policy with an apparently amorphous mission, a personal office of the Administrator that is the same size as that of the Secretaries of Defense or Agriculture,[15] and a Chief Operating Officer separate from the Deputy Administrator[16] even though the Department of Energy seems to survive with a Deputy Secretary also functioning as the Chief Operating Officer.[17]

The Secretary of Energy recognized that his personal office would have to take a cut and he recommended a 14 percent reduction in the budget for the Office of the Secretary. Nothing in the SBA budget suggests that the Administrator plans to reduce the Office of the Administrator; the recommended budget cuts could from employees that directly serve small businesses. This is unacceptable to the Committee and it recommends a 10 percent reduction in funds for the Office of the Administrator and that no funds should be provided to fund the Office of Policy.

Inspector General

The SBA manages a loan portfolio in excess of $80 billion. It also deals with thousands of small business federal government contractors. As has already been noted in this document, there are significant vulnerabilities in the SBA's operations – vulnerabilities that place the taxpayer at risk and undermine the integrity of the federal procurement process. As the first line of defense against waste, fraud and abuse, the Office of the Inspector General plays a vital role in uncovering significant criminal, civil, and management problems at the SBA. The Committee strongly recommends $2 million in savings recommended elsewhere in this document be transferred to the Inspector General to ensure that office has sufficient resources to root out fraud, abuse, and waste.

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[14] Not all field personnel are located at district offices. The SBA also has major employment centers to process loans (thereby speeding credit to small businesses) and a disaster loan call center (to help those seeking to rebuild after a disaster).

[15] Secretary Vilsack and Secretary Gates are able to manage much larger agencies (Department of Agriculture and Defense respectively) with only 13 individuals in each of their personal offices.

[16] In testimony to the Committee on March 2, 2011, the Administrator claimed that the position of the Chief Operating Officer was terminated. In fact, the position has not been filled since the incumbent returned to the Federal Trade Commission. Nothing would prevent the Administrator from filling that position absent actions by the Committees on the Budget and Appropriations.

[17] The Department of Energy has roughly 16,000 employees, 90,000 contractor employees and a FY 2012 budget request of $29.5 billion.

Chairman GRAVES. I would ask unanimous consent that the Views and Estimates letter be considered as read and open for amendment in its entirety.

Does any Member seek recognition for the purpose of offering an amendment?

Seeing none, the question is on adopting the Views and Estimates letter.

All those in favor, please say, "Aye."

All those opposed, say, "No."

The ayes appear to have it. It is the opinion of the chair that the ayes do have it. The Views and Estimates letter is agreed to.

And I now recognize the ranking member for a motion.

Ms. VELÁZQUEZ. Yes, Mr. Chairman, I want to provide the Committee notice that Democrats will be filing separate Views with the Committee on the Budget.

Chairman GRAVES. Without objection, so ordered.

And I would ask unanimous consent that the Committee be authorized to correct punctuation and make any other necessary technical changes in the document considered today.

And, without objection, that is so ordered.

I do want to, real quick, before we finish, welcome Mr. Hanna from New York and Mr. Barletta from Pennsylvania to the Committee, our brand-new members. And I appreciate them being here today.

And, with that, the hearing is adjourned. Thank you.

[Whereupon, at 1:44 p.m., the committee was adjourned.]

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Congress of the United States
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Representative David N. Cicilline (RI-01)
Statement Regarding The House Small Business Committee's Views and Estimates on the Small Business Administration's Fiscal Year 2012 Budget Request

Thank you Chairman Graves, Ranking Member Velázquez, and my colleagues on the House Committee on Small Business. As we have often heard through testimony and research before this Committee, small businesses truly are the backbone of our nation's economy. Our country's full and sustained economic recovery is inextricably linked to the ability of small businesses to form, grow, and prosper. The role of the Small Business Administration (SBA) in supporting this vital segment of our economy cannot be understated as the United States builds upon a nascent economic recovery. As the Small Business Committee transmits its views and estimates report on the SBA Fiscal Year 2012 budget request, I would like to take this opportunity to provide my input on this matter.

First, I support the view that Small Business Development Centers (SBDCs) are a critical component of the SBA's outreach and technical assistance efforts – and that the Administration's proposal to reduce SBDC funding by $9.6 million runs contrary to the proven efficacy of this vital program. As a former Mayor, I know first-hand of the powerful partnerships cultivated through the SBDC program – partnerships that have helped small businesses in my District and throughout the country create and retain jobs, generate economic growth through new sales and savings for small businesses, and help thousands of clients translate the vision of a new business into reality. In my state, over the course of the last three years – a period representing one of the most dramatic economic downturns in our nation's history – the Rhode Island Small Business Development Center counseled more than 2,200 clients, helping to create or retain more than 1,000 jobs, and raising more than $28 million in capital for small businesses. While the Administration and Congress contemplate the many possible ways to reduce spending, we must also be certain that we support programs that have proven their return on investment time and again. This Committee, and the SBA FY 2012 budget, must preserve the ability of SBDCs to continue to deliver high quality and effective services to small business owners and entrepreneurs.

Second, the views and estimates as contemplated by the Committee include reductions and, in some instances, elimination of funding for programs that provide targeted and essential assistance to communities in critical need of access to the SBA's expert counsel. Many of these recommendations exceed the reductions proposed by the Small Business Administration in their FY 2012 request. The argument espoused within the views and estimates report regarding duplication of services and programs, within and outside of the SBA, requires urgent and comprehensive review by an independent third party. Efforts to eliminate funds for programs that serve women, veterans, low-income individuals, and Native Americans should not be enacted without first conducting a thorough, third party review of these programs and their relationship with existing initiatives in the

SBA and within other government agencies and departments. This Committee must ensure that essential services will continue to be provided in a timely and effective fashion to clients who face unique obstacles in opening and expanding a small business.

Finally, the Small Business Administration must be given the flexibility to adapt their programs to the changing nature of the economy and fluctuating financial conditions facing small businesses. While this flexibility should not exceed statutory authorization, it must also not be interpreted so narrowly as to constrain the SBA's ability to innovate and adequately serve the needs of small businesses and entrepreneurs. The views and estimates of the Committee seek to curtail several SBA proposals including two initiatives within the 7(a) program – the Small Loan Advantage and Community Advantage Pilot – and two within the Small Business Investment Company (SBIC) program – the Early Stage Innovation Fund and the Impact Investment Fund.

In particular, I believe it is within the SBA's authority to initiate the two funds proposed within the Small Business Investment Company program. The Early Stage Innovation fund is intended to target the market gap in early-stage financing that all too often prevents start-up small businesses from transforming their entrepreneurial visions into reality. The Impact Investment Fund will help place up to $1 billion into the hands of start-up small businesses – targeting both economically disadvantaged communities and entrepreneurs in emerging industries in the New Economy. Both of these programs are aimed at providing entrepreneurs with the tools and resources to support their innovation and grow concepts into commercialized products, thereby creating jobs and driving economic growth.

The SBA has $3 billion in authorized leverage annually through the SBIC program. However, each year the SBA has between $1 billion to $2 billion in additional leverage authority that remains untapped. Both the Early Stage Innovation Fund and Impact Investment Fund are intended to leverage a portion of existing, untapped authority – propelling much needed capital into the hands of start-ups and entrepreneurs. While the SBA should be given the flexibility to implement these proposals within the SBIC, they must also be held accountable for developing and operating the programs in a manner that protects the financial soundness of the SBIC. Furthermore, the SBA should be required to provide regular reviews to this Committee on the performance of the two initiatives.

Today, in the State of Rhode Island, there are 40,400 individuals employed in the manufacturing industry. A decade earlier in 2000, the Ocean State's manufacturing employment level was 71,000. Rhode Island was the first state in the Northeast to enter the economic recession, and over the course of the three year downturn 11,900 manufacturing jobs were lost – the largest employment decline among all industries in the state. However, despite these losses manufacturing currently represents the third largest share of private employment, and the average wage for an individual employed in manufacturing is $47,199 – that is a wage that surpassed both the state and national average in 2009. Further, the vast majority of manufacturing firms in Rhode Island are small businesses with less than 100 employees. These existing small businesses, as well many manufacturing entrepreneurs, are yearning for access to capital to expand or begin small businesses. As the SBA reports, for FY 2010 SBIC financings in the Manufacturing Industry led all other industry types – driving more than $500 million into the hands of entrepreneurs in this sector. Yet, if small businesses and entrepreneurs are to be able to adapt to the dynamic economic environment in

small businesses and entrepreneurs are to be able to adapt to the dynamic economic environment in which they find themselves, then this Committee must permit the SBA the flexibility needed to maximize existing programs and authority.

Thank you for the opportunity to submit my opinions on this Committee's views and estimates of the SBA Fiscal Year 2012 budget request.

Congresswoman Yvette D. Clarke
New York - 11

- Thank you Chairman Graves and Ranking Member Velazquez.
- I am having a difficult time reconciling the majority's cuts with what should be our #1 priority; which is promoting an environment that fosters job creation and growth.
- As a member of this committee, I have always been a supporter of reforming, and in some cases, eliminating and replacing programs that do not fulfill their mandates. However, I do not support cuts that hinder the participation of minority, veteran and women entrepreneurs and small businesses, as well as those in economically disadvantaged areas.

- The fact of the matter is that we are just emerging from a **major** economic recession. While I completely understand our nation's fiscal situation and agree with President Obama that we must tackle this problem, I also believe that our nation's economy will not **fully** recover until **all** of our nations small businesses are full participants.

Rep. Judy Chu (CA-32)
Small Business Committee Views and Estimates FY 2012
March 15, 2011

Mr. Chairman, thank you for allowing Members to speak on the Views and Estimates document. I wanted to just say a few words on the record about the Committee's letter to Chairman Ryan.

There are several positive areas in the views and estimates that I support including the strong support for the Capital Access programs. Small businesses need access to lending programs to create jobs that the economy needs. I also support the additional hires for procurement center representatives (PCRs) that have the ability to increase small business participation in government contracting.

However, I am troubled by several areas. First, the reductions in the Office of International Trade are short-sighted. Small and medium sized business exports support an estimated 4 million jobs. Every 1 billion in exports supports more than 6,000 jobs.

Extra training for current Commerce and SBA personnel to promote small business exports is inadequate to address the needs of small business. In fact, it goes against the very rationale for the Small Business Administration—a targeted agency especially for the unique needs of small business. We need key specialized staff to help inexperienced businesses break through the maze of trade regulations.

Recently, the Trade and Competitiveness Coalition informed my office that small businesses, compared with large firms, are especially dependent on U.S. government initiatives to open foreign markets. Unlike big companies, most small businesses do not possess offshore business affiliates or contacts that can be used to circumvent trade barriers and gain market access.

By cutting funds to support small business exports we are jeopardizing the economic growth of our small businesses.

I am also troubled by the elimination of the Women's Business Centers, Veteran's Business Centers and the Office of Native American Affairs. I appreciate the fact that our Congress is looking to eliminate wasteful and duplicative programs, but Mr. Chairman, you said yourself in the last hearing that you wanted to find out who carried out this outreach and entrepreneurial development programs best. Since our last hearing, I don't believe our Committee has investigated these issues and until we do we shouldn't eliminate these programs.

There are a few small business owners on the Committee and you know the rewards of being a small business owner. One of these benefits is not just being your own boss, but being your own employer. For many people in this economic downturn starting a small business will be their pathway to success in this recession.

On Friday the Labor Department announced that more than 1 in 5 young Iraq and Afghanistan veterans were unemployed last year. The same Labor data showed that since the recovery officially began in July 2009, women have lost jobs and their unemployment rate has

increased—while men have gained jobs and their unemployment rate has declined. Unemployment for Native Americans varied based on geography, but it is as high as 21 percent in some areas.

This is not the time to cut entrepreneurial programs for veterans, women and Native Americans that will help them get back on their feet. According to the Kauffman Foundation, challenging economic times can serve as a motivational boost to individuals who have been laid-off to become their own employers and future job creators. Yet, this committee is cutting funding for specialized and targeted programs to help these unique populations start and grow businesses.

I hope that as the Committee will reconsider theses cuts so that American's entrepreneurs are not denied access to these critical programs