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## United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP  
WASHINGTON, DC 20510-6350

April 22, 2005

The Honorable Richard Shelby  
Chairman, Subcommittee on  
Commerce, Justice, and Science  
Committee on Appropriations  
United States Senate  
Washington, DC 20510

The Honorable Barbara Mikulski  
Ranking Member, Subcommittee on  
Commerce, Justice, and Science  
Committee on Appropriations  
United States Senate  
Washington, DC 20510

Dear Richard and Barbara:

As your subcommittee begins the process of making appropriations for FY 2006, we submit the following request for funding the Small Business Administration (SBA) programs. Over the last 52 years, almost 22 million entrepreneurs have turned to the SBA's lending and technical assistance programs in order to start and grow a business. The SBA is a vital resource to America's small businesses, who are the backbone of our nation's economic foundation, creating nearly three-quarters of all new jobs and generating about 50 percent of the nation's Gross Domestic Product.

The Senate-passed budget resolution for FY2006 includes a \$78 million funding increase for the SBA over the Administration's proposed budget of \$593 million. Since 2004, the SBA has proposed to cut its budget by 26 percent. The additional funding will provide essential support for the SBA's core programs that prove their success each year, including the Small Business Development Center program, the Microloan program, Women's Business Center program, the HUBZone program and the Veterans Business Development program, among others.

Although the SBA's budget reflects less than 3/100ths of a percent of the total budget, the agency's programs and services have helped to create and retain over 4.5 million U.S. jobs since 1999. There is no doubt the SBA is a tremendous resource, significantly contributing to our economic growth and job creation. We have a responsibility to ensure that this Federal resource that provides a tremendous return on investment receives adequate funding to help maintain our nation's economic security.

*Small Business Development Center (SBDC) Program.* The SBDC program is the SBA's largest and most extensive technical assistance program, with more than 1,100 service delivery points nationwide. Since its inception, the SBDC program has served almost ten million clients, including new business start-ups, struggling firms, and small businesses seeking to grow and expand. The SBDC program is a tremendous bargain for taxpayers, returning \$2.60 in Federal tax revenues for every one dollar spent. In addition, the SBA reports that in FY2003 SBDC

training and counseling helped create or retain 163,647 jobs and generate almost \$7.2 billion in tax revenue.

SBDCs have exceeded the SBA's goals, reaching more customers and providing higher levels of service. However, for a fourth year the SBA proposes \$88 million to fund the program, a reduction in funding from last year. In FY2004, small businesses in our states felt the consequences of insufficient funding because SBDCs had fewer counselors to service an increasing number of clients. Although the SBDCs counseled and trained more clients than ever before, the hours of counseling decreased by almost 100,000 hours, in addition to a reduction in the average hour of counseling per client. The SBA proposed funding of \$88 million for SBDCs is insufficient. In order to account for costs, inflation, and the demand for expanded services, we recommend that the SBDC funding for FY2006 increase to \$109 million.

Microloan Program. We do not support the SBA's request for zero appropriations for the Microloan program. The SBA has stated that the Microloan program should be terminated and that loans under this program should be approved through the 7(a) program instead. The borrowers currently receiving Microloans, however, have insufficient credit profiles to qualify for 7(a) loans. This point was clearly emphasized at the Committee's hearing concerning the SBA's budget on February 17, 2005, at which testimony was received demonstrating that Microloan borrowers have credit qualities, collateral, and financing needs that are significantly different from those required in the 7(a) program. If the Microloan program is terminated, these borrowers will find it difficult or even impossible to secure financing to fund their new or established small businesses.

The Microloan program is a small, efficient, cost-effective program and stacks up very well on a jobs per dollar comparison to the larger SBA loan programs. For example, according to the SBA, in FY2004 the 7(a) program created or retained one job for every \$23,600 in loans, and the 504 program created or retained one job for every \$26,043 in loans, while the Microloan program created or retained one job for every \$3,608 in loans.

The Microloan program is an important source of financing for entrepreneurs who have no other available options. Therefore, we request the direct Microloan program be funded at \$2 million for a program level of approximately \$20 million, and the Microloan Technical Assistance program at \$15 million.

Procurement Center Representatives (PCRs). Small business contractors save taxpayer dollars, provide innovative solutions for the government's needs, and, in FY2003, used federal contracts to create over 490,000 jobs. However, bundling of government contracts continues to be a major barrier for small businesses seeking to grow by competing in the Federal marketplace. The SBA is responsible for creating contracting opportunities as well as counter-acting contract bundling practices, which it does through its Procurement Center Representatives (PCRs) who are placed at major federal procurement centers to review proposed acquisition plans and to advocate for more competition in contracting.

However, the SBA's PCR staffing levels have been woefully inadequate. The SBA

proposes to staff only 56 PCR slots, which would leave approximately 100 of the top procurement centers without dedicated PCR coverage. We request a \$10 million increase to the Salaries and Expenses account to hire 100 more Procurement Center Representatives.

Historically Underutilized Business Zone (HUBZone) Program. The HUBZone program, which gives contracting preferences to firms located in economically distressed areas, is a vital tool of urban and rural development. Since its inception, the HUBZone program has delivered significant Federal contracting opportunities to the areas that need them the most. However, the Federal government consistently fails to meet the HUBZone statutory prime contracting goal each year. Therefore, we request that the HUBZone program be funded at its full authorization of \$10 million.

7(j) Procurement Technical Assistance Program: The 7(j) Program is intended to provide procurement technical assistance and training to small disadvantaged firms and owners of firms located in economically distressed areas. Lack of training for these businesses in areas such as accounting practices, bidding on contracts, and writing Federal grant applications are some of the main reasons why these small firms are unable to compete with larger firms. We recommend funding of \$2.5 million for the 7(j) program, in order to expand program access to those categories of small firms which historically have not had high participation in this program.

SBIR/STTR Technical Assistance Grants (Federal & State Partnership and Rural Outreach). The Federal and State Technology Partnership program (FAST) provides technical assistance to small businesses that compete for government grants and contracts under the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programs. FAST is a competitive grants program that allows each state and territory to receive matching funding in the form of a cooperative agreement to provide services that support the SBIR and STTR programs. In the 2000 SBIR Reauthorization Act, Congress created the FAST program to strengthen the technological competitiveness of small business concerns in all 50 states. At that time, Congress continued to fund the SBIR Rural Outreach Grant Program ("ROP"), which provides states with relatively low participation in the SBIR and STTR programs an opportunity to receive grants to support statewide efforts to increase their participation levels in the programs.

The SBA proposes to zero these programs out. However, in testimony before the House Small Business Committee in May 2003, the SBA explained that, "Participating agencies in the SBIR and STTR Programs have reported a significant increase in the number of proposals received for their current solicitations, which we believe is attributable to outreach and training provided by FAST and Rural Outreach grant recipients." Therefore, given the proven success of these programs, we ask that you fund the FAST program at \$3 million and the ROP at \$1 million.

SCORE. SCORE is a volunteer-based small business assistance network that is both cost-efficient and effective. With its reliance on a cadre of over 11,000 experienced volunteers, SCORE provides expert training to hundreds of thousands of entrepreneurs and small business owners each year at low or no-cost. In fact, SCORE is so cost-efficient that the cost per hour of

service is less than the Federal minimum wage. In SCORE's 41 years of volunteer service, it has served nearly 7 million clients and in FY2004 donated 1.4 million hours of volunteer service.

This is the fourth year the SBA has requested \$5 million for SCORE. However, this level of funding has hindered the program from expanding and updating its scope of services. Consequently, we recommend that the SCORE funding for FY2006 increase to \$7 million so that SCORE can adequately meet the needs of small business.

Women's Business Centers (WBCs). The success of women-owned firms is undeniable. In 2004, they generated almost \$2.5 trillion in revenues and employed more than 19 million workers, making them the fastest growing segment of today's economy. The SBA has estimated that in FY2004, the Women's Business Center program provided counseling and training to 122,712 clients. However, like the Small Business Development Center program and SCORE, the SBA proposes to level fund the WBC program for a fourth year at \$12 million. According to the SBA, in FY2003, WBCs helped create or retain 6,500 jobs and generate \$235 billion in revenue. Given these results, we recommend the WBC program funding for FY2006 increase to \$16.5 million.

U.S. Export Assistance Centers (USEACs). The U.S. Export Assistance Centers (USEACs) are one-stop shops that provide small to medium sized businesses with local export assistance through a partnership with the U.S. Department of Commerce and the U.S. Export-Import Bank. The SBA is the only partner in the USEAC that offers loans that are geared toward small businesses developing or expanding in the export market.

U.S. small business exporters have more than tripled between 1987 and 2001, from 60,000 to 230,00, and they now account for almost \$300 billion of yearly export sales – nearly one-third of total U.S. exports. It is estimated that for every \$1 billion earned in U.S. export dollars, approximately 14,000 U.S. jobs are created or retained. The SBA reports that they approved over 2,200 loans supporting almost \$1 billion in export sales in FY2004. In addition, during that same time period, the SBA counseled and trained almost 4,500 clients on trade and export financing.

The SBA proposes for a second year to eliminate the USEAC line item and thereby terminate its involvement in the program. Noting the importance of small business exports to this nation's economic growth and creation of jobs, and the valuable and unique assistance that USEACs provide to exporters, we recommend funding the USEAC program at \$5 million.

Veterans Business Development Program. Since September 2001, approximately 350,000 National Guard and Reserve personnel have been mobilized in support of current military operations. A recent Department of Defense survey estimates that 29 percent of Guard members and Reservists either own or are employed by a small business. As a result of activations, many small businesses have been forced to go without their owners and key personnel for months, and sometimes years, on end. The effects have been devastating to these patriotic small businesses.

The SBA's Office of Veterans Business Development has made a concerted effort to reach out to small businesses affected by deployments, but given the sheer number of those deployed, its resources have been stretched thin. In addition, this office has been required to broaden its delivery of services, as directed by Executive Order 13360, to provide procurement training programs for service-disabled veterans. Therefore, to reduce the harmful effects of Guard and Reservist deployments on small businesses and to better assist service-disabled veterans, we respectfully request funding of \$2 million for the SBA's Veteran Business Development Program.

Native American Outreach Program. According to the U.S. Census Bureau, poverty rates for American Indians and Alaska Natives are higher than any other group. In addition, unemployment for Native Americans rates well above the national average. In order to help our Native American communities build a sustainable economic environment, we request \$1.5 million to fund the SBA's Native American Outreach program.

PRIME. While access to credit is vital to micro-entrepreneurs for low-income individuals, there is often a severe gap between their current experience and being credit-worthy. Receiving PRIME technical assistance can fill that gap and help them become successful in business. The PRIME program provides in-depth, one-on-one business counseling and training, targeting very low-income entrepreneurs at the most basic stages of starting a business. For the fifth year, the SBA proposes to eliminate this program. We request \$5 million for PRIME technical assistance, so that the smallest of small businesses can continue to receive this unique assistance to grow and become successful.

Office of the National Ombudsman. Encouraging progress has recently been reported by the Office of the National Ombudsman (ONO) in its mission of ensuring equity and fairness in agency enforcement actions against small businesses. In FY 2004, the ONO exceed its goal and held 40 events, including two hearings which were bilingual in English and Spanish, acting as the critical link between small businesses and federal agencies. However, since FY2001, ONO has been funded at \$500,000, making it very difficult to conduct the necessary follow-up to ensure that agencies are responding to the concerns raised through the reports submitted by the Fairness Boards. Therefore, we request that the allocation for the Office of the National Ombudsman be increased to \$1 million.

Advocacy Research. The Office of Advocacy (Advocacy) of the SBA is an independent voice within the federal government, advancing the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and state policy makers. Through Advocacy's economic research, policy analyses, and small business outreach, the office is able to identify issues of concern and work to reduce the regulatory burdens that Federal policies impose on small businesses. In FY2004, Advocacy's work was able to save small businesses \$17.1 billion in regulatory costs. In addition, Advocacy published 27 reports and achieved their goal of ensuring that 25 agencies had in-house expertise on how to comply with

the Regulatory Flexibility Act. According to the SBA, Advocacy projects will achieve \$5.1 billion in regulatory cost savings in FY2005 and \$5.6 billion in FY2006, and anticipates 16 research publications into curricula for FY2005 and the same amount in FY2006. The benefits and cost savings to small businesses as a result of Advocacy's work are undeniable, and we therefore request funding of \$1.6 million.

7(a) and 504 program levels. The SBA's 7(a) and 504 Loan Guarantee programs are funded entirely through fees paid by the borrowers and lenders, requiring no appropriations to support them. These programs are critical to the creation and retention of jobs in this country, and are estimated to have created or retained more than 690,000 jobs in FY2004. Looking at lending activity in your states, there was a benefit of 5,600 jobs in Alabama and 9,300 jobs in Maryland.

In PL 108-447, the Consolidated Appropriations Act of 2005, the authorizing committee set the authorization program levels for the 7(a) and 504 program at \$17 billion and \$7.5 billion, respectively. However, the SBA requests authorization of only \$16.5 billion for the 7(a) loan guarantee program and \$5.5 billion for the 504 program. Based on recent trends in growth and the current pace of lending, demand for 7(a) and 504 loans are expected to grow at least \$1 billion. If we also factor in program changes such as higher debentures for small manufacturers, the programs could exceed the Administration's proposed levels and force a shut-down in lending.

Considering demand and assessed need, the SBA's lending authority for the 7(a) and 504 programs should not be limited to less than the authorized levels. It is estimated that with full authority to lend in FY2006, these loan programs could create or retain almost 1 million jobs. Therefore, we request including language under the Business Loans Program Account for the SBA that provides for the full authorized amounts.

For the 7(a) Loan Guarantee program, we request the following language:

That during fiscal year 2006 commitments for general business loans authorized under section 7(a) of the Small Business Act, shall not exceed the levels established by section 20(e)(1)(B)(i) of the Small Business Act:

For the 504 Loan Guarantee program we request the following language:

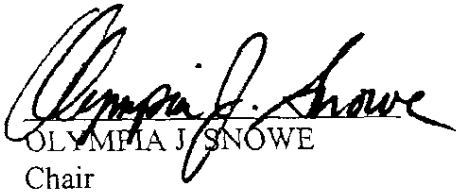
That during fiscal year 2006 commitments to guarantee loans authorized under section 503 of the Small Business Investment Act of 1958, shall not exceed the levels established under section 20(e)(1)(B)(ii) of the Small Business Act:

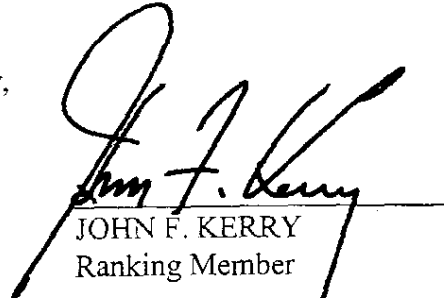
Non-Credit Program Line-Item Funding. We do not support the SBA's proposal to eliminate line-item funding for SBA programs. Specifically, the SBA removes line-item funding for the 7(j), Advocacy Research, HUBZone Program, National Ombudsman, Native American Outreach, and the USEAC programs and includes them in the agency's overall operating budget. According to the SBA, the agency will have greater discretion to determine the appropriate funding for each program without relying on Congressional appropriations. However, this proposal limits transparency and reduces the oversight authority of this Committee and the

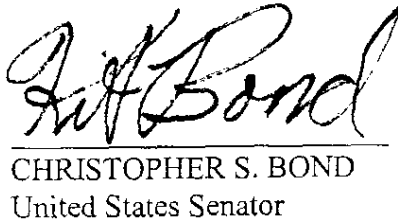
Appropriations Committee to ensure that funds allocated to a specific programs are applied. We recommend that the you continue to separately fund these programs so that Congress can continue to properly oversee them.

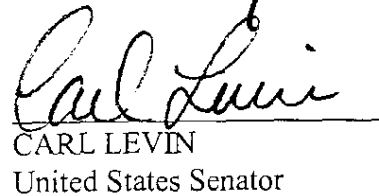
Thank you for your consideration of these requests for the SBA's programs. If you have any questions about this letter please contact us directly or have your staff contact Wes Coulam, Republican Staff Director, or Naomi Baum, Democratic Staff Director, of the Committee, at (202) 224-5175.

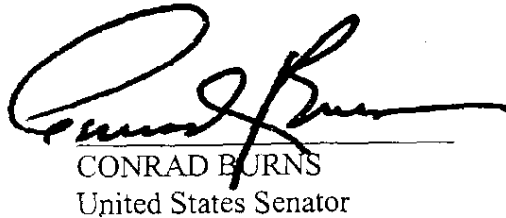
Sincerely,

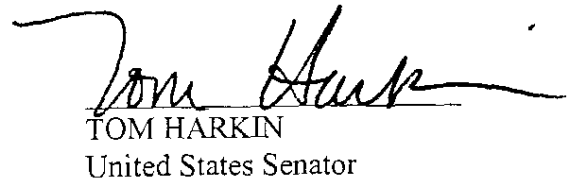
  
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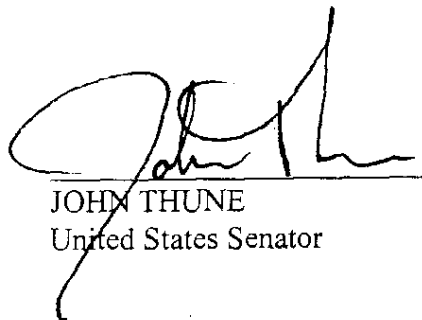
  
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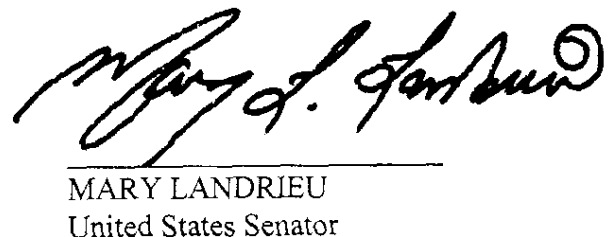
  
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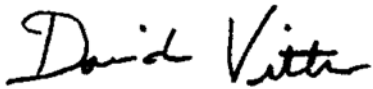
  
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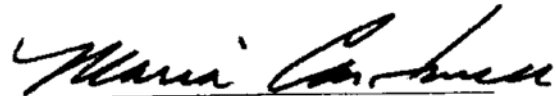
  
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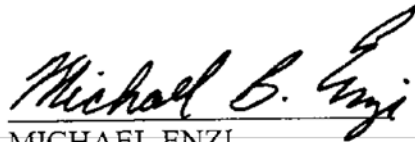
  
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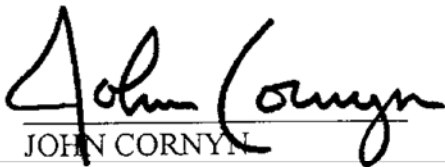
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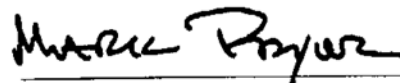
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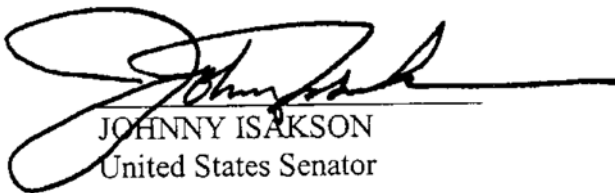
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