United States Senate

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

May 16, 2006

The Honorable Robert J. Portman
United States Trade Representative
Executive Office of the President
600 17th Street, N.W.
Washington, D.C. 20509

Dear Ambassador Portman:

Congratulations on your nomination to be the Director of the Office of Management and Budget. As Chair of the Senate Committee on Small Business and Entrepreneurship, I am interested in the OMB's role in evaluating and assigning economic and financial standards for programs that assist America's small businesses, including the Participating Securities Small Business Investment Company (SBIC) Program administered by the Small Business Administration.

On October 26, 2005, I introduced the "Small Business Investment and Growth Act of 2005" (S. 1923), a bill to facilitate a significantly higher level of investment in small businesses throughout the country by reforming and enhancing the SBIC Program, which is vital to fostering innovation, growth, and job creation in small businesses. Senator Kit Bond, Senator Jim Talent, Senator Thad Cochran, Senator Johnny Isakson, and Senator John Thune have joined me in sponsoring this bill.

SBICs are privately-owned and managed venture capital companies licensed and regulated by the SBA. These companies use their own capital, combined with funds provided by other private investors and supported by an SBA guarantee, to make equity and debt investments in qualifying small businesses. The program has been successful in mobilizing private venture capital investment, and leveraging that private investment with additional funds supported by SBA guarantees, particularly in industries and areas under-served by traditional venture capitalists.

According to recent testimony before this Committee, the SBIC Program has provided approximately $46 billion in long-term capital to more than 99,000 small U.S. companies since 1958, with $2.9 billion invested in 2,299 small U.S. companies in FY 2005 alone. These investments are crucial for job growth and job retention across the country. Moreover, this financing is especially crucial for start-up and smaller companies: in FY 2005, more than 40 percent of SBIC investment dollars went to companies that had been in business only three years or less, and companies receiving SBIC financing had, on average, only 95 employees per company. A total of 218,000 people worked in companies that received SBIC financing in FY 2005. These investments are closely linked to the continued vitality and growth of our economy.

The Participating Securities SBIC Program has been self-supporting, without Federal government appropriations, since the 1990s. Unfortunately, the Program stopped issuing new financing to SBICs at the beginning of FY 2005, because the SBA's share of profits and fees in the program was insufficient to cover the program's costs, and concerns about compliance with the Federal Credit Reform Act of 1990 (FCRA).

The Small Business Investment and Growth Act would create a new type of SBIC program, the "Participating Debenture" SBIC Program, to replace the Participating Securities Program. This new program would also be a zero-subsidy program requiring no appropriations, but would avoid the problems suffered by the Participating Securities Program, by complying with the FCRA and increasing the SBA's share of SBICs' profits. I am pleased that the Administration and the Congressional Budget Office have both agreed that S.1923 qualifies as a debt program under the FCRA.

OMB plays a critical role in determining and assigning the costs of government guaranteed lending programs. The goal of S.1923 is to revive this public private partnership that has been a significant source of equity venture capital for emerging businesses. The bill seeks to strike a balance between the needs of private investors and the interests of the taxpayers, while maintaining a zero subsidy.

To achieve this objective, the Congress must have an in-depth understanding of OMB's subsidy model and all reasonable performance assumptions that are used to estimate program costs. Without that understanding, it is difficult, if not impossible, for us to find a workable compromise to continue a valuable program. If confirmed as the Director of OMB, will you commit to share with the Committee all relevant data and economic assumptions used in the subsidy modeling of S.1923 or any similar legislation? In addition, will you commit to instruct OMB personnel to work with Committee staff in a collaborative manner to identify the appropriate pricing and fee levels to enable the Program to continue at a zero subsidy, while also maximizing its potential impact for small businesses?

If you have any questions or need additional information, please do not hesitate to contact me or have your staff contact Wes Coulam, Republican Staff Director of the Committee, at (202) 224-5175.

Sincerely,

Olympia Snowe

OLYMPIA J. SNOWE
Chair