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## United States Senate

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

March 2, 2006

The Honorable Judd Gregg  
Chairman  
Committee on the Budget  
United States Senate  
Washington, DC 20510

The Honorable Kent Conrad  
Ranking Member  
Committee on the Budget  
United States Senate  
Washington, DC 20510

Dear Judd and Kent:

As Chair of the Senate Committee on Small Business and Entrepreneurship, I submit the following views and estimates on the President's Fiscal Year 2007 budget request for the Small Business Administration (SBA) and other matters under the Committee's jurisdiction, as directed by §301(d) of the Congressional Budget Act.

Small businesses are the engines that drive our nation's economy, creating nearly three-quarters of all new jobs and generating 50 percent of our gross domestic product. As a result of SBA's lending and technical assistance programs, over 4.5 million jobs were created or retained since 1999. Considering that the SBA's budget represents less than 3/100th of a percent of the total federal budget, there should be no doubt that we must create a favorable climate for our 25 million small businesses to grow and thrive by investing in one of the few Federal resources that generates American jobs.

The centerpiece of the Committee's agenda this year will be consideration of legislation to reauthorize several SBA programs that are set to expire September 30, 2006. The reauthorization and funding of these programs is vital to the continued success and growth of the economy and the small business community.

The Administration has proposed a budget for the SBA of \$624 million for Fiscal Year 2007. Excluding the Disaster Loan program, this represents a 25 percent reduction in the agency's core loan and technical assistance programs over the last six years. Moreover, this signifies an astounding 37 percent reduction in SBA's overall budget since 2001. The time has come to provide the SBA with the necessary funding its programs need to reach their full potential and help entrepreneurs reach the American dream of owning a successful small business.

*Affordable Health Insurance.* Small businesses face a crisis when it comes to securing quality, affordable health insurance. Health insurance premiums have increased at double digit percentage levels in four of the past five years, and small businesses are trapped in dysfunctional small group markets that are dominated by a handful of insurance carriers offering few coverage

options. To address this crisis, I have introduced the Small Business Health Fairness Act (S. 406), which would allow small businesses to pool together through Association Health Plans (AHPs) -- also known as Small Business Health Plans -- to purchase health insurance with the same advantages the larger businesses and unions currently enjoy under Federal law at a very minimal cost. I encourage the Budget Committee to establish an appropriate budget allocation to accommodate small business health care legislation, including tax incentives to both: (1) incentivize small businesses to offer health insurance to their employees; and (2) inject more competition into dysfunctional small group markets.

*Small Business Tax Simplification.* In order to help maintain an environment where small businesses can grow and prosper it is essential that small businesses are provided relief from the complex and burdensome tax code. I support the President's proposal to increase and make permanent small business (Section 179) expensing and have introduced legislation, S. 1523 and S.2287, that would implement these proposals.

In order to promote small business development, the gross receipts threshold should be increased from \$5 million to \$10 million for taxpayers that will qualify for cash method accounting as provided in S. 543 as well as allowing small partnerships and S Corporations to elect a taxable year other than the calendar year. I believe that these tax relief and simplification measures would go a long way to reducing the burden on small businesses in complying with the tax code and urge the Budget Committee to accommodate these proposals.

*Increase in Fees.* The SBA has artificially reduced its request to Congress by \$7 million by proposing to impose new fees on small businesses. These fees would have to be created by Congress through new legislation. The pertinent programs, the 7(a) and 504 Business Loan Programs and the Small Business Investment Company Program, are already zero-subsidy programs, receiving no appropriations to support their loan guarantees, and are funded entirely by fees charged to small businesses and to the lenders that participate in the programs. These new fees will pose a significant burden on the small businesses that will have to individually subsidize the SBA's administrative costs (in addition to the taxes they already pay). Congress created the SBA's loan programs to assist small businesses that cannot obtain sufficient financing elsewhere, and it is illogical to subject these same small businesses to additional fees, over and above those fees needed to pay for their own loan guarantees. Therefore, this fee increase must be rejected and I request that the SBA's budget allocation be increased by \$7 million, to render these fee increases unnecessary.

*Disaster Program.* The Administration has proposed that Congress amend the Federal Disaster Loan program so that borrowers would pay a higher interest rate after the first five years, rather than the current practice of providing a lower fixed rate for the entire loan period of a disaster loan. The Administration estimates that the SBA's appropriations could be reduced by \$41 million by charging disaster victims these higher rates. Because disaster loans have a maximum

term of thirty years, borrowers may encounter many years of higher interest rates as a result of this proposed change. Putting a greater burden on disaster victims is not a policy that Congress should adopt.

Microloan Program. The SBA has stated that the Microloan program should be terminated and the program's loans approved through the 7(a) program instead. Microloan borrowers, however, have unique credit qualities, collateral, and financing needs that are significantly different from 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 that is an important source of financing for entrepreneurs who have no other available options. Therefore, I request the Microloan program be funded at \$2 million and the Microloan Technical Assistance program at \$15 million.

SCORE. SCORE is a volunteer-based small business assistance network that is both cost-efficient and effective. By utilizing 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. Over 42 years, SCORE volunteers have served over 7 million clients and in FY2005 donated 1.3 million hours of volunteer service and assisted over 403,000 clients.

After four years of requesting level funding at \$5 million this is the first year the SBA has requested less for SCORE – \$4.95 million. This would hinder the program from expanding and updating its scope of services. Consequently, I recommend that SCORE funding for FY2007 be increased to \$7 million so that SCORE can adequately meet the needs of small business.

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 firms seeking to grow and expand. The SBDC program is a tremendous bargain for taxpayers, returning \$2.66 in Federal tax revenues for every dollar spent. In addition, in 2004, SBDCs' training and counseling helped create or retain 155,160 jobs; generated almost \$6.1 billion in new sales; and saved an additional \$5.8 billion in sales.

SBDCs have exceeded the SBA's goals, reaching more customers and providing higher levels of service. In FY 2005, SBDCs experienced the impact of four years of level funding, which resulted in a reduction in counselors. Additionally, this was the first year SBDCs counseled and trained fewer clients for fewer hours than the year before. The SBA proposes to decrease funding for SBDCs to \$87 million. However, the SBDC funding must be increased in order to account for costs, inflation and to expand their services.

Procurement Center Representatives (PCRs). Small business contractors save taxpayers' dollars and provide innovative solutions for the government's needs. In FY2003, small business contractors used federal contracts to create over 490,000 jobs. Bundling of government contracts continues to be a major barrier for small businesses. The SBA polices contract bundling practices through its Procurement Center Representatives (PCRs), who are placed at major federal procurement centers to review proposed acquisition plans and advocate for more competition in contracting.

Earlier this year, the SBA Inspector General found that small businesses lost approximately \$380 million in contracting opportunities because the SBA failed to fully fund its PCR positions. The SBA's PCR staffing levels have been woefully inadequate. The SBA proposes to maintain its FY2006 staffing level of only 56 PCR slots, which would leave approximately 100 of the top procurement centers without dedicated PCR coverage. Therefore, I request the appropriate amount of funding to the Salaries and Expenses account to hire 100 more PCRs.

Historically Underutilized Business Zone (HUBZone) Program. The HUBZone program, which gives contracting preferences to firms in economically distressed areas, is a vital tool of urban and rural development. The program has delivered significant Federal contracting opportunities to the areas that need them the most. However, the Federal government has consistently failed to meet the HUBZone statutory prime contracting goal every year. Therefore, I 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. The SBA's budget proposes to place all 7(j) funding under Executive Direction, which would limit Congressional oversight. I recommend funding of \$2.5 million for the program, to increase program access and assure accountability.

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 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 also extended the SBIR Rural Outreach Grant Program ("ROP"), which provides certain 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 Honorable Judd Gregg  
The Honorable Kent Conrad  
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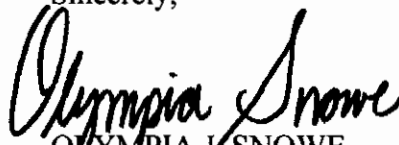
In testimony before the House Small Business Committee in May 2003, the SBA explained that, "Participating agencies in the SBIR and STTR Programs have reported a significant increase in the number of proposals received for their current solicitations, which we believe is attributable to outreach and training provided by FAST and Rural Outreach grant recipients." Given the proven success of these programs, I ask that you fund FAST at \$3 million and the ROP account at \$1 million.

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 FY 2004, the Women's Business Center program provided counseling and training to 144,316 clients. However, the SBA proposes to decrease funding for the WBC program, after four years of level funding at \$12.5 million. According to the SBA, in 2003, WBCs helped create or retain 6,500 jobs and generate \$235 billion in revenue. Given these results, I recommend the WBC program funding for FY 2007 be increased to \$16.5 million.

Veterans Business Development Program. From September 2001 to December 2005, over 480,000 National Guard and Reserve personnel have been mobilized in support of current operations. Thirty-five percent of Guard and Reserve members work for small businesses or are self-employed. The SBA's Office of Veterans' Business Development (OVBD) has made a concerted effort to reach out to small businesses affected by National Guard and Reserve force call-ups, but given the sheer numbers of Guard and Reserve personnel mobilized, their resources have been stretched thin. The OVBD 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 stem the effects of Guard and Reservist deployments on small businesses and to better assist service-disabled veterans, we respectfully request \$1.5 million for the OVBD.

Thank you for the opportunity to comment on programs within the Committee's jurisdiction. I look forward to working with you to develop a budget resolution that is cognizant of both the Administration's agenda and the need for strong small business programs that help to create jobs. If you have any questions about this letter, please contact me directly or have your staff contact Wes Coulam, my Staff Director on the Committee, at (202) 224-5175.

Sincerely,

  
OLYMPIA J. SNOWE  
Chair