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Congress of the United States
U.S. House of Representatives
Committee on Small Business

2361 Rayburn House Office Building
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The Honorable John M. Spratt, Jr
Chairman
Committee on the Budget
Room 309 Cannon HOB,
Washington, DC 20515

Dear Chairman Spratt:

I am writing to advise you of the views and estimates of the Committee on Small Business with regard to the President's Fiscal Year 2008 budget proposal. While there are many agencies, programs, and initiatives within the federal government that directly or indirectly benefit or assist small business, this letter will focus on the President's FY 2008 budget request for the Small Business Administration (SBA) and programs created by the Small Business Act and the Small Business Investment Act. These programs are included in the 370 Commerce and Housing Credit budget account.

OVERVIEW

SBA's FY 2008 funding request outlines its proposals for core programs, on-going operating expenses, continuing agency modernization efforts and assistance for small businesses impacted by disasters. The $464 million proposal is substantially less than the amount of new budget authority requested last year. However, the SBA plans to make up some of these funds by transferring un-obligated funds from the money appropriated for disaster loans for FY2007.

SBA's budget decline, when viewed over the last six years, reflects a significant reduction for small business programs. During FY 2002, the first year the current administration was in office, $918 million in funds was provided to the SBA. When compared to the current budget submission for SBA, this represents a reduction of 40 percent in funding for the primary federal agency designed to assist small businesses. The administration's proposal represents the lowest percentage of federal discretionary spending on small business programs in decades. The Committee is concerned that this sustained lack of funding has damaged SBA's effectiveness. The agency's problems with disaster response after 9/11 and Katrina, the lack of oversight in miscoding of businesses and contract bundling, and the fraud and mismanagement in key programs are indications that they lack the resources to accomplish their mission.

The budget cuts have led to a series of problems within the agency. The most visible of the problems caused by agency cutbacks has been with the disaster loan program. After decades of dependable, timely responses to natural and manmade disasters, SBA was unable to provide timely assistance after the Katrina and Rita hurricanes. Modernization and consolidation efforts in the program resulting in staff losses and IT problems continue to impede affected small businesses attempting to access financing and assistance, nearly one and a half years later. Thousands have literally given up or relinquished the loans for which they were finally approved. SBA does not appear to have the resources to properly oversee this and other key programs.

The President's budget for FY2008 does not do enough to rebuild and restore the SBA to even the base level necessary to help our nation's small businesses. Seventeen out of twenty-six core programs have been cut, flat funded or terminated. The FY 2008 SBA budget requests no funding for the Microloan technical assistance program, the Program for Reinvestment for Microentrepreneurs (PRIME), the New Markets Venture Capital program, the Small Business Investment Company (SBIC) participating securities program, BusinessLINC, Small Business Innovation Research (SBIR), Federal and State Technology (FAST) Partnership Program, and the SBIR Rural Outreach Program. The SBA has not requested funding for these programs for the past several years; however, Congress has consistently supported the merits of many of these programs and has continued to fully or partially provide annual appropriations to maintain their operations.

SBA has halted the growth of key entrepreneurial development programs, such as the Women's Business Center program, the Small Business Development Center program, and the Service Corp of Retired Executives. Doing so has resulted in a decline of the United States entrepreneurial framework, which has the practical effect of reducing the level of economic activity in our communities.

The FY 2008 budget proposal continues to consolidate agency services by shifting the costs of several programs into the salary and expense (S&E) line item. The programs centralized into S&E include: Advocacy Research ($1,300,000), National Ombudsman ($500,000), 7(j) technical assistance ($1,500,000), HUBZones ($1,988,000), and Native American Outreach ($772,000). This shift away from the budget transparency of a line item, over the Committee's objections, shrouds the programs and consolidates control of information about the effectiveness and implementation of the program within the SBA. The Committee would like to see those programs returned to individual attribution.

Lending Programs

The Disaster Loan Program – operated by the SBA is responsible for providing affordable, timely and accessible financial assistance to homeowners, renters and businesses following a disaster. Financial assistance is available in the form of low-interest, long-term loans. SBA's disaster loans are the primary form of federal assistance for the repair and rebuilding of non-farm, private sector disaster losses. For this reason, the disaster loan program is the only form of SBA assistance not limited to small businesses. Current law provides a four percent interest rate to disaster loan borrowers who do not have credit elsewhere.

For FY 2008 the SBA requests no new funds for lending authority or administration under the disaster loan program. Instead, the agency has requested that the disaster loan program be funded from a carryover from funds from the previous year.

The Committee is concerned that the amount allocated for disaster loans and administration is too low. For FY2008, SBA is funding the Administration Function and the direct cost function with $329 million carried over as described above from the funds to cover Katrina and the Gulf Coast Hurricanes. This will support a $1.06 billion disaster loan level that reflects the cost of the subsidy to cover the average annual loan amount calculated over 5 years in the standard manner. However, the Committee is concerned that this is not enough carryover given the breadth of the Gulf disaster and the slow but continuing pace of partial payments and application resolutions, not to mention modifications and appeals from initial funding decisions. The Committee urges that SBA be allocated enough to support a $2.5 billion disaster loan level and to increase the Administration account until it can correct existing problems – this would require a carryover for direct loans and administration of about $500 million.

7(a) Loan Guarantee Program - is the SBA's primary business loan program. The 7(a) program provides loan guarantees to eligible small businesses that have been unable to obtain financing through the private sector because commercial lenders cannot provide these loans for the purpose, in the amount, or on terms that small business borrowers require. The program relies on private-sector lenders to provide loans that are then guaranteed by the SBA. The proceeds from a 7(a) loan may be used for virtually any business purpose.

For FY 2008, as in the three previous years, the SBA has requested no budget authority to operate the 7(a) program. The SBA has funded the program's direct costs through fees on small business borrowers and lenders. This has resulted in an increase in the cost of 7(a) loans to borrowers over the past two years. Their current level of 0.55 percent represents the statutory maximum for fees charged to lenders. Although the SBA has proposed lowering the lender fees to 0.494 percent FY 2008, this fee level is just short of twice the lender fee only four years earlier. And SBA has done nothing to lower the fees levied on borrowers. In fact for smaller loans, borrower fees have doubled; for mid-sized loans, these fees have increased 20 percent. For larger loans the borrower's upfront guarantee fee could be in excess of $50,000 in addition to the annual lender's fees.

The higher costs led to a decline in overall loan volume last year of 3%. Since 2002 there has been a marked decline in average loan size from $236,280 down to $149,300 last year. As a result, businesses cannot obtain the level of funding they may need to sustain their business and they must bear the burden of heavier costs on the loan they get. Another problem is that there has been a 20% decline over the last few years of lenders who are willing to participate in the program, down to 2,267, the lowest level in years. Fewer lenders means less competition willing to make the loans small businesses need.

Finally, the SBA has shed an invaluable and popular related program, the LowDoc Loan program, which simplified the loan process for small businesses. By using a one page application and allowing the lender to rely on the strength of the applicant's character and credit history, this was an outstanding vehicle for delivering loans in a low cost, simplified way through rural and community lenders to small businesses they knew.

Over the last two years the House has supported amendments to reduce the cost of the 7(a) program and make capital more accessible and affordable for small businesses. The FY2008 budget proposed by the Administration does nothing to address these problems. They request a loan level of $17.5 billion for the 7(a) program, which includes funds for the SBA Express, and Community Express programs, as well as other programs operated under the 7(a) framework. The proposal is the same as its request for FY 2007. It fails to reduce the cost of the program, to make it more affordable to businesses that need it and to restore a successful program, LowDoc, that helped simplify small rural and community loans. For these reasons, the Committee remains concerned about the cost of the SBA's largest loan program. The Committee recommends that steps be taken to make these loans affordable and accessible to the target small businesses and allows for growth of the program to a $20 billion loan level for FY2008.

The 504 Certified Development Company Program - provides permanent, fixed rate financing for businesses to acquire industrial or commercial buildings or heavy equipment and machinery. Local Certified Development Companies (CDCs) working in partnership with private lenders and the SBA deliver the program for projects in the community. Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from the CDC (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business being helped. The 504 program differs from the 7(a) loan program, which provides variable rate, shorter term financing for general business needs.

The administration proposes a $7.5 billion program level for the 504 program in FY 2008, which represents no change from the program level requested for FY 2007. The SBA has proposed eliminating the upfront borrower fee of 0.5 percent and increasing the ongoing annual fee from .018 percent to .021 percent. The Committee feels that given the growth of this popular program, $8 billion in authority might be a better program level because it creates a cushion that allows for a higher rate of expansion.

The 7(m) Microloan Program - makes funds available to nonprofit community based lenders, who in turn make very small loans to eligible borrowers, generally the higher risk customers, in their community. The Committee continues to be concerned about the SBA's renewed effort to eliminate the funding for the Microloan program and the accompanying $13.8 million in technical assistance that Congress has supported. This program reaches various demographic groups that would otherwise not be served by the private sector and even the SBA's 7(a) program.

Under its FY2008 proposal, the administration intends to make the Microloan program self-financing by increasing the interest rates charged to Microloan intermediaries. Currently, intermediaries can borrow funds at rates as low as two percent *below* the five-year Treasury rate. The proposed zero-subsidy policy requires intermediaries to pay 1.06 percent *over* the five-year Treasury rate. The Committee found that this change could raise the cost to the borrower over the life of the loan by as much as $4000 per year. This represents the first time that the administration has proposed pursing a zero-subsidy policy for the Microloan program and the Administrator conceded during the Committee's budget hearing that increased costs could significantly reduce demand for the loans. The Committee believes the restructuring of Microloans is unwarranted, would serve to make a successful loan program less affordable and less accessible and recommends funding be continued for the 7(m) Microloan program at the level Congress has supported over the past few years. Because it is combined with the technical assistance, the Microloan program has had a *total* of two defaults in its ten year history. Unless the SBA devises some means that will reach this unique market with affordable loans and which would not have access to capital without the program, the Committee will continue to oppose the elimination of the modest budget for the Microloan program and recommends that the budget reflect sufficient funding to support program level of $30 million.

The SBA also recommends eliminating the Microloan technical assistance funds with assistance duties transferred to SBA's network of partners (SBDC's, WBC's and SCORE). First, it is hard to see how a lender would be interested in the Microloan program without real technical assistance element. Also, as will be described later, the Committee also feels it is unrealistic to ask training partners like SBDCs, SBCs and SCORE to do more training without giving them additional funds. Therefore the Committee recommends continued funding for technical assistance for 7(m) and we would put it at $20 million to cover growth in the program.

The Small Business Investment Company (SBIC) program - was created to fill the gap in capital markets for long-term financing of smaller, growth-oriented businesses. SBICs, which are licensed and regulated by the SBA, are privately-owned and managed investment firms that make their own investment decisions. SBICs use their own funds, plus resources borrowed with an SBA guaranty or leverage, to make venture capital investments in small businesses.

The SBA presently provides financing, called leverage, to SBICs in two forms: "debentures" and "participating securities." Debenture financing usually appears better suited if the SBIC plans to invest in portfolio companies with the ability to service debt. Participating securities generally are better suited for SBICs investing in seed and early stage businesses or businesses which either do not have established cash flow or need to use available cash for other purposes. Beginning in FY 2005, the SBA has not requested a program level for the participating securities program – effectively preventing the licensing of new participating securities firms.

The SBIC program, similar to the 504 Program, operates entirely on fees – and no appropriation is required. SBA requests a $3 billion program level for the SBIC debenture program. The administration requests no program level for the SBIC participating securities portion of the SBIC program for FY 2008 and does not propose to restart the SBIC participating securities program. Historically, the participating securities program has accounted for more than half of the SBA's equity investment activities. Its termination has limited the availability of equity capital for small business entrepreneurs.

Without funding, the participating securities program will be unable to license new firms. Additionally, existing firms may be unable to fully draw down the leverage that they were promised by SBA when they were originally licensed. Finally, the participating securities program has had a positive impact on minority entrepreneurs. In 2004, 11 percent of the total number of SBIC projects (totaling $148 million) went to minority-owned firms. This is significantly larger than the 2 percent of equity capital that minority-owned firms receive in the private sector. In order to restore the participating securities program as a source of capital for early stage firms, the Committee supports an appropriation of $100 million. With this funding, the SBA would be able to again license participating securities firms and restore a critical source of financing for these startup companies.

The New Markets Venture Capital Company (NMVC) – provides equity capital and intensive management assistance to businesses located in low-income areas. Consistent with its previous budget requests, the administration does not request any funding for this program. As a result, SBA will be unable to bring new NMVC companies into the program. In the interest of making capital available in low income areas, the Committee supports funding for this program so that venture capitalists will have an incentive to make investments in areas not being served by SBICs.

BusinessLINC - was part of the New Markets Initiative and is designed to promote business growth in low-income areas of the country by facilitating mentor-protégé relationships between large and small businesses. The administration has not requested funding for this program claiming that the program is redundant - as there are other community development organizations that can provide the same service as BusinessLINC. This overlooks the fact that SBA has proposed either flat-funding or cutting the programs it says BusinesLINC duplicates.

Without funding for this valuable program, businesses will be affected in areas of the country that, despite periods of economic growth, have not achieved parity with the rest of the nation. The Committee requests a budget of $1 million in funding for BusinessLINC and that the proceeds not be re-allocated to the SBA Matchmaker program.

Program for Investment in Micro-entrepreneurs (PRIME) - allows SBA to award grants to non-profit micro-enterprise development organizations, programs, collaborators or intermediaries. These funds can be used by an organization to provide much-needed training and technical assistance to low-income and disadvantaged entrepreneurs interested in starting or expanding their own businesses. They also can be used to engage in capacity building activities targeted to micro-enterprise development organizations that serve low-income and disadvantaged entrepreneurs.

Congress has continued to appropriate funds for the program, though the administration has proposed to eliminate PRIME funds in its FY 2008 and previous budgets. In not requesting funds the administration incorrectly believes that this program duplicates current technical assistance programs like the Microloan technology assistance program which, it should be mentioned, the administration is recommending for elimination. PRIME is an important program because it is not tied to a loan, as is the Microloan program. In solely providing entrepreneurial development training programs, PRIME often is able to assist low-income small business owners manage their capital needs without taking out unnecessary loans. This function – while often overlooked – is essential to the growth of entrepreneurs in low-income communities. The Committee opposes this elimination and seeks $15 million in funds for PRIME.

GOVERNMENT CONTRACTING PROGRAMS

The 8(a) Program – was established in the late 1960s and remains the primary vehicle through which minority-owned businesses enter the federal marketplace. The 8(a) program promotes individual minority entrepreneurship through the award of federal contracts. SBA and helps small business find suitable contract opportunities and then accepts and supports the performance of the awarded contract. The administration's FY2008 budget request for the operation of this program is $35,952,000 which is over a million less than the FY2007 request.

In the last five years there has been an explosion of new participants accepted into the program putting more strain on an already inadequate support system and almost doubling the number of those relying on SBA for assistance. However, the SBA's Inspector General has listed the 8(a) program as one of SBA's Top Ten Most Critical Management Challenges for the last 7 years citing various problems that deserve the manager's attention but which remain unresolved. Additionally, a number of the participants are Alaska Native Corporations that are receiving a substantial portion of the available contracts. The General Accountability Office has been reviewing issues with the growth of Alaska Native Corporations that make up less than 2% of all 8(a) firms but have been awarded over 20% of all 8(a) contract dollars – an tenfold increase since FY2000.

The current funding level is insufficient to manage the growth of 8(a), support the participants adequately and address the critical problems such as oversight and contract award. SBA's FY2008 budget proposal does nothing to address these problems and does not assign resources commensurate with resolving the management challenges raised by the GAO and the IG. The Committee would like to see the program supported at a level that allows for assistance to more participants from headquarters and in the field and sufficient oversight to ensure the program is managed fairly and efficiently.

The 7(j) Program - provides management and technical assistance to the 8(a) program participants and other programs that are designed to help bring jobs to high unemployment areas. Section 7(j) of the Small Business Act authorizes grants to provide for such assistance. The 7(j) program is the primary way 8(a) firms receive technical assistance from the SBA. But while the administration's policies have dramatically increased the pool of 8(a) firms they propose a $500,000 reduction from its FY2007 request. The Committee believes that reducing the programs' budget request to $1.5 million in FY2008 from the $2 million level requested in FY2007 at a time of dramatic 8(a) growth will end up leveraging its resources to the point of ineffectiveness. The technical assistance has simply failed to keep pace with the growth. The Committee also intends to look into the use of funds to ensure the program has qualified business advisors.

The HUBZone Empowerment Contracting Program - was established to increase community development for low-income or high unemployment areas through the injection of federal contracting dollars to businesses that locate in these areas and employ area residents. The program allows federal contract preferences for firms that locate their primary business operations in a designated HUBZone. The federal procurement-related initiatives available to HUBZone companies include price adjustments, limited competition amongst HUBZone approved firms, and sole source (no competition) contracts. The administration's FY2008 money set aside in the budget request for the HUBZone program is $1,988,000, but they assign a cost to operate the program of $9 million.

The Committee is concerned that the SBA has not devoted the resources necessary to oversee the program and avoid fraud. For example, only 600 of the 2000 companies approved for the HUBZone program in 2006 were evaluated for eligibility. By scrimping on support for the program, businesses in the community that really need the work have a tougher time and the program may be missing an opportunity to meet its objectives. The Committee would like to see it fully funded and the resources devoted to evaluation increased.

Office of Contract Assistance for Women Business Owners (CAWBO) - was created by Executive Order on May 23, 2000 within the SBA's Office of Government Contracting and Business Development to respond to issues facing women business owners in federal procurement. An issue of great importance to women-owned businesses is their lack of access to the federal contracting arena. The primary function is to implement policies to achieve the 5 percent women-owned business goal, and evaluating agencies' efforts towards goal achievement. The Committee believes that not funding the office may further delay the implementation of a major initiative to achieve their goal, the Women's Procurement Program. The Women's Procurement Program would ultimately allow women-owned businesses to compete against each other for contracts in industries that have historically been closed to them. Unfortunately the SBA has still not completed the study of industries that have historically had under-utilization of women-owned businesses that was to form the basis of the program. The SBA needs to fully fund the Office so that efforts to assist women-owned businesses, including the Women's Procurement Program, can proceed with the necessary resources.

Procurement Center Representatives (PCRs) – provide assistance to aspiring small business federal contractors and challenge one of the biggest obstacles small businesses face in the federal marketplace: contract bundling. Bundling combines small contracts that entrepreneurs could perform into giant packages that are beyond the capabilities and capacity of small firms. The SBA's PCRs are charged with reviewing bundled contracts in order to expand contracting opportunities for small businesses. If PCRs do not agree with an agency's bundling strategy, they can appeal the contract to the agency head. The SBA IG named this as a key management problem facing SBA. The SBA recently proposed increasing the number of PCRs from 58 to 67.

The Committee supports more resources given the doubling of federal contract dollars in the last decade and a staggering increase in federal contract bundling. The administration itself emphasizes the pivotal role PCRs play in monitoring bundling. The Committee believes the agency should hire 17 PCRs in FY2008 bringing the number to 75, which the Committee recommended in its last authorization bill. The Committee also believes that sufficient travel money must be made available so each PCR can keep up with contracts they may need to monitor outside their local area.

Commercial Marketing Representatives (CMRs) -help small businesses become subcontractors to large corporations through research of available contracts and opportunities and advocacy and coordination with qualified small business candidates. The Committee recommends the SBA raise the number from its current level to 50 CMRs; one per state.

Office of Size Standards – carries out the SBA's authority to determine whether companies are "small businesses" for federal programs and regulations. Over the past few years, the Office of Size Standards has been so focussed on revising the standard, unsuccessfully so far, that it has had trouble keeping up with agency and industry demands for determinations. However, the SBA's budget does not break out this Office separately. The Committee recommends that the SBA list separately the resources of this office in their budget so that historical comparisons can be made for oversight purposes and that more resources can be specifically allocated to this office so they can do their job in a timely manner.

Office of Technology - administers the Small Business Innovation Research (SBIR) program and the Small Business Technology Transfer (STTR) program which encourage small business research and development firms to participate in federal research. Although funding for specific research and development projects comes out of agencies budgets for extra-mural research (and not the SBA's budget), the SBA Office of Technology issues policy direction to the agencies that participate in the SBIR and STTR program and collects data about the grants. At Congress' direction, it also conducts outreach and technical support for small firms, especially in states where the grants do not receive a lot of attention.

The Committee believes that inadequate resources have been allocated to the Office of Technology. Since a separate S&E line item for the Office of Technology was not included in the 2008 budget request, the request does not make possible a year-to-year historical comparison of the Office of Technology's budget allocation. Also, the Committee supports funding the restoration of funds and personnel necessary for the Rural outreach and the Federal and State partnership (FAST) programs that were eliminated at least back to their 2004 levels of $250,000 and $2 million respectively.

ENTREPRENEURIAL DEVELOPMENT PROGRAMS

The FY 2008 SBA Budget calls for flat funding virtually all of the entrepreneurial development programs. These numbers represent the sixth straight year that the administration has requested no additional funding for these programs. The Committee is concerned that flat-funding is taking a toll on the SBA's entrepreneurial programs with reduced and less effective counseling even as SBA cuts other technical assistance programs and shifts the duties to the entrepreneurial programs. In the committee's view, these programs can be the backbone in a community that helps thousands of interested entrepreneurs get started.

Small Business Development Centers – was created by Congress through the Small Business Development Center (SBDC) program in 1980 to foster economic development by providing management, technical and research assistance to current and prospective small businesses. SBDCs offer one-stop assistance to small businesses by providing information and guidance in over 1000 central and easily accessible branch locations; generally in partnership with state and local educational communities. The administration's FY 2008 request for SBDCs is

$87,120,000 – roughly $37 million below their authorized level. Like the other entrepreneurial development programs, SBDCs have been flat-funded for years while being given a host of new responsibilities by the administration and Congress. This year, SBA suggests SBDCs take over Microloan program counseling with no additional funding as in similar past requests to take over BusinessLINC, FAST, Rural Outreach and Veterans outreach programs.

The Committee believes that the SBDC program should be budgeted at $110 million. Restoring funds to this level would, under the funding formula, return most of the states to their highest previous level. The level has also been supported in the Senate twice before. SBA opposes this suggestion saying SBDCs can turn to the states or local partners for more SBDC contributions. The Committee finds that many of those organizations are already contributing more than they were required and are themselves subjected to other, unfunded federal mandates. After 6 years, they are now looking to their federal partners for commitment and leadership.

Women's Business Centers - provide assistance and/or training in finance, management, marketing, procurement and the Internet, and addresses specialized topics such as home based businesses, corporate executive downsizing, and welfare to work. All of the 96 centers provide individual business counseling and access to the SBA's programs and services – a number are also intermediaries for the SBA's Microloan and loan pre-qualification programs. The administration request of $11,880,000 was slightly less than FY2007 and would cut off funds for seven centers. The Committee supports funding for the Women's Business Centers at the authorized level, $16,500,000, which would provide funding to every existing center and provide additional funds for opening new centers. Like the SBDC's, WBC's have been flat funded but asked to do more duties. They should have the extra funds to carry out these increased responsibilities.

Service Corp of Retired Executives (SCORE) - trains start-up business owners through one-on-one counseling and workshops. Working and retired executives and business owners donate their time and expertise as volunteers, providing confidential counseling and mentoring free of charge. For FY 2008, the budget request is $4,950,000 – the same as the FY 2007 request. This amount is about $2 million below the authorized level of $7 million. Given the additional duties suggested for SCORE and the amount of time that has passed since funding was increased, the Committee recommends funding SCORE at its fully authorized level of $7 million.

Veterans Programs - The National Veterans Business Development Corporation was established in 1999 for the purpose of creating an independently chartered, agency-wide advocate for veteran-owned small businesses. Congress authorized the corporation for 4 years with the intention that it becomes self-sufficient after such time. The Corporation was reauthorized through FY 2005 and received appropriations for that year as well as FY 2006 and FY2007. The Committee would like to see this listed as a line item and funded at a sufficient level ($3.7 million for FY2008) to ensure their continued growth for our veterans.

For overall veterans outreach, the SBA relies on the office of Veterans Business Development. It is responsible for the formulation, execution, and promotion of policies and programs of the administration that provides assistance to small business concerns owned and controlled by veterans and service-disabled veterans. It also oversees five Veterans Business Outreach Centers, which are responsible for ensuring veterans access to capital through marketing and outreach efforts. The program was allocated $2 million for FY 2003 through 2006. The FY 2008 budget request asks for $743,000 for Veterans Outreach programs, the same as the FY 2007 request. In addition, the SBA is allocating $500,000 to fund a special outreach effort to inform veterans of the loan programs and other services available to them through the SBA.

The Committee is concerned that the level requested by the administration is under-funded and will be ineffective in meeting the recognized needs of our veterans. With the call up of tens of thousands of National Guard and Reservists, for example, the Military Reserve Economic Injury Disaster Loan should be a featured and popular program, yet it is literally unknown. The Committee would like to see the commitment to returning veterans doubled both in resources allocated to the Veterans offices at SBA and in the $3 million allocated to expand the outreach and technical assistance efforts made to our veterans. Some of the increased money recommended for SBDCs (see above) could be directed to assist in this effort.

Paul Coverdell Drug free Workplace Program – was created by the Drug Free Workplace Act (1998) which established a Drug Free Workplace Demonstration Program. The Act permitted SBA to make grants to intermediaries and SBDCs to assist small businesses financially and technically in establishing drug free workplace programs (DFWP). The administration requested $3 million in FY 2004, and requested only $1 million for FY 2005– which the Congress appropriated. For FY 2006, the administration has requested $1 million. The FY 2008 budget request is $990,000 – the same as the FY 2007 request. The Committee will review the effectiveness of this program but pending that review supports a $1 million level for FY 2008.

National Women's Business Council - supports new and ongoing research and produces and distributes annual reports and recommendations prepared by the council. The President's FY 2008 budget request is $743,000 – the same as the FY 2007 request. In FY 2006, the request was $750,000. The Committee recommends $750,000.

Office of Native American Affairs - ensures that American Indians, Native Alaskans and Native Hawaiians have access to business development and expansion tools available through the Agency's entrepreneurial development, lending, and procurement programs. In each of the last four years, no funds have been requested for the Office of Native American Affairs, but Congress and this Committee has continually funded the program. The FY 2008 budget request includes $772,000 for the Office of Native American Affairs down from the roughly $1 million it has received over the last 3 years. The Committee recommends $1 million in funding and separate reporting of this program.

Office of International Trade (OIT) - was established to provide financing and technical assistance for small exporters facing obstacles accessing global markets. However, since a separate Salaries and Expenses line item for (OIT) was not included in the 2008 budget request, SBA's proposal does not make possible a year-to-year historical comparison of the programs funding levels. Since last year, the US Export Assistance Centers (USEAC) program funding allocation has been shifted into the agency's operating budget, further reducing the transparency from the agency's international programs. International financing assistance, through SBA's Export Express Program, declined this past year by over 20% in dollars loaned and 30% in total number of loans. Given the fact that small businesses represent nearly all domestic exporters in the country, and the unprecedented national trade deficit, the Committee feels that SBA should boost its support for small exporters.

Office of Advocacy (Advocacy) and its Independent Research - was established by Congress to provide an independent voice for small business in the formation of public policy across the entire federal government. Advocacy focuses on researching small business trends, characteristics, and contributions to the economy. The Committee has long been concerned that there is a risk that it will lose its independence if folded in too closely with the operation of SBA. Advocacy's salary and expenses and funds for operation of the Office are folded into the SBA's Salaries and Expenses accounts under "Executive Direction. For the most part this is tolerated because the authority for the salaries and the duties of Advocacy are spelled out quite clearly in the Small Business Act. However, this Committee supported a separate line item for independent, extramural research for Advocacy that is now at the level of $1.3 million. Congress created these line items a decade ago to shield the independent judgment of these special offices from SBA's direct or indirect influence. Advocacy is routinely required to render critical assessments of executive agencies including the SBA. It has the added duty to collect and analyze data about small businesses and the impact of government on them. Requiring Advocacy to look to SBA to dispense research funds chills their judgment in undertaking projects where the results, though valuable to small business, might run afoul of the administration. The committee strongly supports restoring the $1.3 million line item for Advocacy Research and a separate report on funds requested for research in its budget.

ADMINISTRATION AND PERSONNEL

SBA has experienced prolonged and serious problems with the morale and competence of its workforce. During the last six years, the core workforce dropped from about 3000 to 2000 employees. During the same period, the loan guarantee and financial package applications, the technical assistance assignments, the volume of federal small business contracts and the workload to properly monitor these programs grew dramatically. The SBA's general justification for resource reductions was efficiency, centralization and standardization of SBA key functions through a transformation plan.

The depth of these recent cuts, nearly one-third of the workforce, has raised some significant issues. SBA ranked last in employee morale in the 2006 Office of Personnel Management (OPM) poll as it had in the two previous polls. In addition, SBA ranked near the bottom in customer satisfaction poll conducted by the University of Michigan, which could also be evidence that SBA does not have enough manpower allocated to help small business owners when help is needed. This is of particular concern for FY 2007 where SBA is operating under the Continuing Resolution and will not undertake attrition replacements or planned new hires. Congress has repeatedly cited a lack of Procurement Center Representatives to help small businesses secure contracts. In addition, the agency's Lender Oversight function has recently been criticized for not having sufficient resources to complete examinations and identify problems in a timely manner as has the HUBZone program and 8(a).

In trying to carry out its centralized and streamlined transformation strategy, the SBA has substantially altered its operating model to the detriment of small businesses. First, the SBA has greatly reduced the number of employees in SBA District offices. By doing so, the SBA is less able to serve local entrepreneurs and assist program partners. Before the transformation, SBA's district offices served as an outreach tool to help communities learn about SBA programs and services. They also provided a backstop for lending and assistance decisions. Today, district offices have been significantly cut with a large segment of their previous duties either handled by centralized automated systems or turned over to private surrogates.

The reduction of District-based staff has had a profound impact on the 7(a) and 504 program, resulting in fewer lenders and inefficient processes. Part of the reason for the decline in lenders is the elimination of District staff that work with new lenders, educate existing lenders, and serve as local advisors should technical questions arise. The SBA also has made the decision to eliminate its portfolio management staff, many of which were responsible for working with 504 program lenders in the default and liquidation process. The result of the elimination of this specialized staff has impaired 504 program lenders' ability to recover losses on defaulted loans, which ultimately increases the cost of operating this program. This continual reduction in SBA District staffing – as seen in the 7(a) and 504 programs – is undermining the public-private partnership that SBA depends on to delivers it services to small businesses. This may help explain the unsatisfactory customer and employee satisfaction ratings for the agency.

The Administration's budget request would add 86 employees in 2007 and 2008 to fill critical needs, but SBA was required to fill these needs as a part of the original buyout agreements. While the agency now recognizes it has a significant problem, as the Administrator mentioned during SBA's budget hearing, the Committee is concerned that, given the problems that have been identified, simply fulfilling its hiring obligation is not enough. The Committee would like to see additional resources put back in place so that the agency can reconnect in the communities they serve. The committee also feels that more resources are needed in lender oversight and evaluations which are now swamped and unable to keep up with basic tasks. The Committee recommends a substantial increase in resources applied to problems that need special attention such as contracting, oversight, critical management functions, and evaluations for programs such as 8(a), HUBZones, loan program evaluations, liquidations and oversight. The Committee also recommends that SBA rethink their Alternative Work Site (AWS) plan and be able to better explain how it fits into the administration's overall strategy.

CONCLUSION

In conclusion, the President's FY 2008 budget request for small business is inadequate to turn the SBA around and create the improvements necessary to achieve the Administrator's and the Committee's long term goals. In particular, it is recommended that the funding be restored to disaster loan program, and that the Microloan be fully funded. Also the committee urges that funds be budgeted for what we believe are crucial efforts to help returning veterans, to expand the SBIC program by restarting investments through participatory securities in that program. Funds should be increased to the entrepreneurial development programs and the programs that have been folded into the Salaries and Expenses or operational portions of SBA's budget be broken out again so that historical spending can be tracked along with effectiveness. Finally, enough funds should be budgeted for major efforts in human resources to provide the manpower and training necessary to improve the competence and capabilities of the staff; particularly in the field offices.

Thank you for your consideration of this long list of items the Committee believes is necessary to support small businesses and restore the viability of the Small Business Administration.

With respect,

V

Nydia Velázquez
Chairwoman
House Committee on Small Business