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# United States Senate

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

March 1, 2007

The Honorable Kent Conrad  
Chairman  
Committee on the Budget  
United States Senate  
Washington, D.C. 20510

The Honorable Judd Gregg  
Ranking Member  
Committee on the Budget  
United States Senate  
Washington, D.C. 20510

Dear Kent and Judd:

As the Chairman of the Committee on Small Business and Entrepreneurship, I submit the following views and estimates on the President's FY2008 budget request for the Small Business Administration (SBA or Agency) and other matters under the Committee's jurisdiction in compliance with section 301(d) of the Congressional Budget Act. I thank you for considering the Committee's views as you prepare the FY2008 budget.

### FY2008 Budget Request Overview

The President has requested \$464 million in new budget authority for the SBA's FY2008 budget. The request excludes funding for disaster loans, which are proposed to be funded by carryover from the emergency appropriations provided in FY2006. While the budget request is a modest decrease compared to the \$468 million provided in FY2007, the impact is great because it exacerbates years of cuts. In aggregate, the Small Business Administration has been cut by more than 30 percent if we *exclude* disaster loan funding since the President took office in 2001. If we *include* disaster loan funding, it is a cut of 45 percent.

As a result of the President's cuts, SBA's loans and venture capital are more expensive, shifting more than \$100 million in fees to the small business community, businesses are getting less counseling, and they are losing out on opportunities to do business with the Federal government, a very serious problem since the Federal government spends about \$370 billion on contracting for services and goods each year.

The President's FY2008 budget request will only make these problems worse. The cuts are unwarranted, and the proposals are unworkable. I respectfully request that as you prepare the FY2008 budget resolution, you consider restoring a minimum of \$187.8 million to the SBA, bringing total available funds to \$651.8 million. This is still a fraction of the \$2.9 trillion the President has proposed for the entire Federal budget, and \$34 million less than what was provided seven years ago to the Agency, excluding disaster loan funding.

**(See attached chart for funding by program)**

### Microloan Programs

The most controversial aspect of the budget request is the President's proposal to make the microloan program self-financing and to eliminate completely the microloan technical assistance program that supports it. By way of background, the SBA has three programs that are dedicated to microloans: direct microloans, microloan technical assistance, and the Program for Investment in Microentrepreneurs (PRIME). The first two programs were designed to work together, using a non-profit organization as an intermediary between the SBA and the business. An intermediary gets a loan from the SBA, and uses that money to make loans to micro-businesses in the local community. They then counsel the businesses to help them succeed, thereby increasing the chances that the businesses are able to repay the loan, and the intermediary to repay the SBA. The budget proposal would eliminate all appropriations for the program, making it self-financing (zero-subsidy) by raising the interest rate that the intermediaries pay. In addition, the budget proposal eliminates the technical assistance portion of the program and proposes to serve these borrowers through the SBA's other entrepreneurial development programs, such as Small Business Development Centers and Women's Business Centers.

These proposals are unworkable for several reasons. First, if the intermediaries don't get technical assistance grants to cover the cost of their counseling to the microloan borrowers, they will get out of the program, thereby ending this already limited capital in our communities. The intermediary is on the hook for these loans and must set aside money in a loan-loss reserve account to cover potential losses. Without the funding from SBA to cover the cost of the technical assistance, and therefore protect their investment, they will not participate in the SBA microloan program. Second, SBA expects the other business counseling programs to take on this extra work of counseling these borrowers, but the budget doesn't provide those programs with additional money.

For the last three years, the Administration recommended eliminating both parts of the microloan program. This proposal is disingenuous because the Administration says its budget supports microloans when in fact eliminating the technical assistance portion and raising the cost of the funds is tantamount to killing it. I oppose the proposal and request \$3.2 million to support a program level of \$31 million, and \$20 million for technical assistance.

I also oppose the Administration's request to eliminate for the seventh year all funding for its other microloan program, the Program for Investment in Microentrepreneurs (PRIME). Unlike any other SBA program, the PRIME program provides highly in-depth and intensive, one-on-one business counseling and training, and is targeted to help very low-income families. While access to credit is vital to micro-entrepreneurs, for low-income individuals there is often a severe gap between their business experience and the experience needed to be deemed credit-worthy. Receiving PRIME technical assistance can fill that gap and help them become successful in business. In addition to need, the PRIME program is a good return on the investment. The International Labor Organization estimates that the return on investment in micro-enterprise development (through programs such as PRIME and the Women's Business Centers) ranges from \$2.06 to \$2.72 for every \$1 invested. I request full funding of \$15 million for PRIME.

These requests are modest compared to the money we spend internationally to help small businesses in other countries. In 2005, the United States spent more than \$200 million on microloan programs in other countries. More than \$54 million in microloans have been disbursed in Iraq, according to U.S. Ambassador Khalilzad, and earlier this year the Bush Administration announced plans to continue to pursue a microloan program in Iraq.

Ambassador Zalmay Khalilzad, U.S. Ambassador to Iraq, May 9, 2006: "The efforts of the US government in its assistance to Iraq have been broad based... For example, over \$54 million in micro-loans have been disbursed, resulting in 26,700 loans in twelve cities, and the program is set to expand to even more areas. Also, a Loan Guarantee Corporation is currently being established to encourage private banks to make loans to small businesses."

Secretary of State Condoleezza Rice, Foreign Relations Committee hearing on the Administration's Plan for Iraq, January 11, 2007: "We will help local leaders improve their capacity to govern and deliver public services. Our economic efforts will be more targeted on specific local needs with proven records of success, like micro-credit programs. And we will engage with leading private sector enterprises and other local businesses, including the more promising state-owned firms, to break the obstacles to growth."

### The Disaster Loans

The SBA requests no new funding for disaster loans, instead asking for a transfer of \$156 million from the disaster programs account to cover administrative expenses in FY2008. In FY2006, the SBA also went without an appropriation for disaster loans, relying on amounts that had been provided through emergency spending bills to cover loans for Katrina victims. By February 2006, the SBA had run out of funding for disaster loans and Congress had to step in twice to prevent the program from shutting down.

Once again, as a result of emergency spending bills enacted in late 2006, the SBA has sufficient funding on hand to cover what would be considered a "typical" year for disaster loans. The \$329 million in carry-over would fund a disaster loan level of \$1.064 billion — the ten year average for disaster loans, excluding loans made for Katrina and the World Trade Center bombings. The pattern of funding the disaster loan program as an off-budget program is troubling. While I think it would be wasteful to provide new funding when the money already exists to support the projected disaster loans needed for FY2008, and I support this transfer, efforts should be made to bring this program back on budget for purposes of transparency and accountability, and the Administration needs to consider how to better account for the possibility of large scale disasters impacting the need for greater disaster loan appropriation levels.

### SBA's Largest Loan Program

As with years past, I oppose the President's zero subsidy for the SBA's largest loan program, known as the 7(a) Loan Guaranty Program. This is the fifth time the President has proposed eliminating all funding for these loans, contending it brings stability to the program and saves

taxpayers \$100 million. These arguments are misleading for many reasons, the most obvious being that the SBA realized this so-called savings by shifting the cost of the program to the borrowers and lenders by reducing the types of loans offered and by raising program fees. To borrowers and lenders, this "savings" is a tax. The stability argument is misleading because it blames the appropriators and continuing resolutions for the instability in the program instead of accepting responsibility for requesting too little money or unrealistic program levels. In reality, Congress met or exceeded the President's requests in each year - FY2002, FY2003, FY2004, FY2005, and FY2006. The instability in the program was caused by the Administration because it dismissed the loan demands estimated by the oversight Committees and industry and refused to request sufficient funding in the budget, or proposed failed funding schemes to avoid requesting a realistic amount. The Administration is proposing to reduce the lenders fee, but they must also provide relief to the borrowers. Borrowers of the larger 7(a) loans pay as much as \$55,000 in fees on a loan of \$2 million, which is \$20,000 more than even a conventional loan from a private lender. Since 1992, borrowers and lenders have paid excess fees, as much as \$800 million, and there is no reason to keep funding this program on their backs. I propose \$79 million to help reduce the fees, while still maintaining a program level of at least \$17.5 billion.

#### Contracting

The President's budget is insufficient to help small businesses learn how to do business with the Federal government. The obstacles are particularly great for minorities, women, and veterans. There are several services at the SBA to support small businesses interested in Federal contracting, but since 2001 they have been cut or level-funded. This year is no different. The President's budget request for the 7(j) Technical Assistance Program has gone from a high of \$3.6 million in 2002 to \$1.5 million in the current budget request. To better serve under-served businesses, I am requesting a funding level of \$3 million for FY 2008. This essential training account provides management training and business counseling to small disadvantaged businesses.

The President's budget does request funding for an additional nine Procurement Center Representatives, but I am requesting more. The Small Business Administration currently has 57 full-time Procurement Center Representatives (PCRs) responsible for reviewing more than \$370 billion in Federal contracts awarded annually throughout the U.S. This shortage of staff makes it virtually impossible for them to be effective in advocating on behalf of small businesses with respect to prime contracting opportunities. Consistent with a successful budget amendment that Senator Snowe and I sponsored last year, I am requesting a total of \$10 million to hire 100 additional PCRs. These PCRs are to be assigned to major procurement centers and are responsible for creating contracting opportunities for small and local firms, as well as reviewing potentially bundled Federal contracts.

#### Business Counseling

The President's budget again proposes insufficient funding to meet the needs of small businesses and entrepreneurs that seek counseling. For Small Business Development Centers (SBDC), the President requested \$87.12 million — about \$740,000 less than was appropriated for 2007 and the seventh year of flat or reduced funding. When taking into account inflation, SBDCs have

experienced a 19-percent cut since 2001, despite the fact that this program returns \$2.82 dollars to the Federal government for every Federal dollar spent. Because of decreasing funds, some centers have closed, and counseling hours and the number of clients counseled have been declining since 2003 and 2004. Despite these cutbacks, SBDCs continue to do important work—including assisting more than 3,500 small business or entrepreneurs in North Dakota and 2,000 in New Hampshire in 2005. SBDCs need \$110 million in order to bring the majority of SBDCs back to 2000 staffing levels and to prevent further closings and loss of assistance to small businesses.

For Women's Business Centers, the President's request cuts funding to \$11.8 million, \$460,000 less than the appropriated level for FY2007. When taking into account inflation, the Women's Business Centers should be funded at a minimum of \$14 million. However, to meet the current commitments and to continue to expand the program to meet demand, \$16.5 million is needed. According to the most recent data from the Census Bureau, women-owned businesses have grown at twice the national average, and adequate support is necessary to ensure that this success continues.

The President's request of \$743,000 for SBA's Office of Veterans' Business Development continues the tradition of flat funding this program, despite the ongoing war in Iraq and Afghanistan. To address the increasing needs of reservist small business owners and the large number of returning veterans, especially service-disabled veterans, I am recommending that \$2 million be directed to this office for FY2008. Self-employment is sometimes the only way to employment for service-disabled veterans. And meeting the needs of veterans' and reservist small business owners will benefit not only the economy in general, but also the military's ability to retain quality military personnel.

For the past several years, SBA has received insufficient funding to hire employees to assist entrepreneurs at U.S. Export Assistance Centers (USEACs). As a result, the number of finance specialists at USEAC hubs has decreased from 22 in 2000 to 15 today. The President has removed the line-item for USEACs, making careful oversight of the funding of this program more difficult. However, in light of record setting trade deficits -- \$764 billion in 2006 -- and the important role that small businesses play in increasing exports -- 97 percent of all exporters are small businesses -- I request that the Office of International Trade receive \$8 million, instead of the President's request of \$5.2 million. This will allow the decline in the number of financial specialists to be reversed and to return to the 2000 levels.

For the Service Corp of Retired Executives (SCORE), the President has requested \$4.95 million - the seventh year of flat funding. Based on the work of thousands of volunteers, SCORE has assisted more than 7.2 million entrepreneurs since its creation, including 300,000 in FY2006 alone. I respectfully request that the budget amount be raised to the maximum authorized level of \$8 million in order to address past funding deficits and to allow it to expand its outreach.

### Native American Outreach

The President's FY2008 budget proposes to fund the Native American Outreach Program at \$772,000. I respectfully request the FY2008 Budget Resolution provide \$2 million for the Native American Outreach Program. This is the only SBA program tailored to meet the needs of the Native American community. According to a report released by the U.S. Census Bureau in February of 2006, the "three year average poverty rate for American Indians and Alaska Natives [from 1998-2000] was 25.9 percent higher than for any other race groups." With unemployment as high as 50 percent and poverty rates well above the national average, Native American communities need a commitment from the Federal government that we will help them build sustainable economic opportunities.

### New Markets

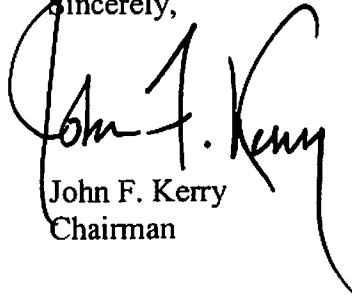
Important to the scope of financing that the SBA offers small businesses is the New Markets Venture Capital program. For the seventh year in a row, the President seeks no funding for this initiative, contradicting the Agency's new vision to focus on high-unemployment, high-poverty areas – the very communities the New Markets Venture Capital firms serve. Another contradiction is that the President's budget proposes a new, separate New Markets pilot program to coordinate its loan programs with the New Markets Tax Credit. If the Administration wants to reach these markets, and to leverage the New Markets Tax Credit, they should build on the program that already exists and that has been side-lined. As with years past, I respectfully request that you consider restoring the funding for the New Markets Venture Capital (NMVC) program that was rescinded in the FY2003 Omnibus Appropriations Act Conference Report: \$10.5 million for guaranteed debentures, and \$13.75 million in grants for NMVC technical assistance. The NMVC program was part of a broad bipartisan initiative agreed to by Speaker Hastert and then-President Bill Clinton to stimulate investment in low-income urban and rural communities. The other elements of that agreement included in the Community Renewal Tax Relief Act were New Markets Tax Credits, additional empowerment zones, and a new program - Community Renewal Zones. The goal of the legislation was to test a number of different approaches to poverty alleviation to better understand what works the best. With the exception of the NMVC program, all of the other programs are going forward. The NMVC program should also be given a fair chance to demonstrate its potential for success, and the SBA should give it proper support before diverting resources to a new similar initiative.

### Elimination of Line-Item Funding

I am concerned that the President's FY2008 Budget request continues to eliminate line-item budget authority for the 7(j), HUBZones, Native American Outreach programs, and USEACs. I am strongly opposed to the elimination of line-item funding for these critical entrepreneurial development programs. The elimination of line-item budget authority limits transparency and reduces the authority of this Committee, the public, and the Appropriations Committee to ensure that the funds allocated to a specific program are applied to that program in an appropriate manner.

Thank you for the opportunity to comment on the FY2008 budget request as it affects programs within the Committee's jurisdiction, and thank you for your steady and long-standing support of small business assistance. I look forward to your continued support and to working with you to develop this portion of the Budget Resolution for FY2008 so that it has reasonable funding of \$651.8 million for the SBA.

Sincerely,

A handwritten signature in black ink, appearing to read "John F. Kerry". The signature is written in a cursive style with a large initial "J" and a long, sweeping tail.

John F. Kerry  
Chairman

**BUDGET REQUEST FOR THE SBA – FISCAL YEAR 2008**

<b>SBA Programs</b>	<b>President's Request</b>	<b>Committee's Request</b>	<b>Differential</b>
Veterans Programs	\$743,000	\$2,000,000	\$1,257,000
7(j) Technical Assistance Programs*	\$1,500,000	\$3,000,000	\$1,500,000
Small Business Development Centers	\$87,120,000	\$110,000,000	\$22,880,000
SCORE	\$4,950,000	\$8,000,000	\$3,050,000
Women's Business Centers	\$11,880,000	\$16,500,000	\$4,620,000
Native American Outreach*	\$772,000	\$2,000,000	\$1,228,000
Office of International Trade (USEAC)*	\$5,231,000	\$8,000,000	\$2,769,000
Microloan Technical Assistance	\$0	\$20,000,000	\$20,000,000
Microloans	\$0	\$3,200,000	\$3,200,000
PRIME Technical Assistance	\$0	\$15,000,000	\$15,000,000
Procurement Center Representatives	\$900,000	\$10,000,000	\$9,100,000
New Markets Debentures	\$0	\$10,500,000	\$10,500,000
New Markets Technical Assistance	\$0	\$13,750,000	\$13,750,000
7(a) Loans	\$0	\$79,000,000	\$79,000,000
<b>Total</b>	<b>\$113,096,000</b>	<b>\$300,950,000</b>	<b>\$187,854,000</b>

\*The President did not request direct funding. He eliminated the line items and proposed funding through general operating budgets.