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

February 22, 2008

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 Fiscal Year (FY) 2009 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 FY 2009 budget and for your support last year, which helped result in the first increase in SBA's funding since FY 2001.

FY 2009 Budget Request Overview

The President has requested $657 million in new budget authority for the SBA's FY 2009 budget, including $174,369,000 in new funding for disaster loans and their administration. Excluding disaster funding and earmarks, the Administration proposal is a 3.4 percent reduction from the FY 2008 enacted level. Despite the seemingly small decrease, the impact is great because it exacerbates years of cuts. In aggregate, the Small Business Administration has been cut by 28.2 percent if we *exclude* disaster loan funding and earmarks since the President took office in 2001. If you take into account inflation as well, the reduction from the FY 08 enacted level if the FY 09 Presidential request is implemented would be 5.5 percent, and the reduction from FY 2001 would be 41 percent.

The President's budget request shows no recognition of the country's economic woes and the positive effect that the small business community (which in the past 15 years has created 93.5 percent of all net new jobs) could have on our troubled economy. For example, as a result of the President's cuts, SBA's technical assistance portion of the Microloan program (which counsels borrowers) is eliminated, thus shifting the burden to its other entrepreneurial development programs. However, all of those programs (save one, which is level-funded) are cut and, therefore, hardly in the position to take on additional duties. Because of this restructuring fewer microloans will be made, which actually worsens the current credit crunch.

The cuts in the President's FY 2009 budget request are unwarranted, and the proposals are unworkable. I respectfully request that as you prepare the FY 2009 budget resolution, you consider restoring a minimum of $241,561,000 to SBA programs, bringing total available funds to $356,750,000.

(See attached chart for funding by program)

Microloan Programs

As with last year, President Bush recommends a controversial proposal to make the microloan program self-financing by raising the interest rate that the intermediaries pay, and to eliminate completely the microloan technical assistance program that supports it. Some will argue that zero-subsidy is better than the President's proposals in 2004, 2005, and 2006 that eliminated both parts of the SBA microloan program, but in reality this proposal is just as bad. 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 the microloan program. There is no reason to change the structure of this very successful program, which has had only two losses to the government since it started in 1992. As many on the Budget Committee know, the microloan and microloan technical assistance grant programs were designed to work together by using a non-profit organization as an intermediary between the SBA and the business. The 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 therefore the intermediary is able to repay the SBA.

The budget proposal eliminates the technical assistance portion of the program and proposes to counsel the borrowers through the SBA's other entrepreneurial development programs, such as Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), and SCORE, even though, as discussed later in this letter, the President not only doesn't provide funding for them to take on the extra clients, but he actually cuts SBDCs 10 percent, WBCs almost 9 percent, and freezes funding for SCORE. Aside from funding problems, the proposal is unworkable. The intermediary, not SBA's other counseling partners, 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, intermediaries will not participate in the SBA microloan program. And, of course, the counseling partners (SBDCs, WBCs and SCORE) are not willing to set aside ten percent of their funding in a loan loss reserve account to guarantee repayment of the loans. The current program structure is the most effective and fiscally sound. We need a budget that will genuinely support this program because even in good times, microloans are the least likely credit to get made in the private sector, and the credit crunch will only exacerbate the problem. Instead of eliminating it, I request $20 million for technical assistance grants to microlenders and that $3.6 million be provided to support a program level of $31 million.

I also disagree with the Administration's request to eliminate for the eighth 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. Given the importance, need, and economic benefits of PRIME, I request full funding of $15 million.

The SBA continues to argue that these programs are expensive, but support for microlending here at home is 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. In 2006, more than $54 million in microloans were disbursed in Iraq, according to U.S. Ambassador Khalilzad. And as part of the 2007 supplemental request for funding the war in Iraq, the Administration requested about $160 million for micro-credit programs. If we are going to fund micro-credit programs to help small businesses in other countries, we should also fund them in America, to help our own small businesses.

<u>SBA's 7(a) and 504 Loan Guaranty Programs</u>

For the sixth year, the President has proposed zero funding for the SBA's largest small business loan program, 7(a). In addition, the President is proposing to raise the 7(a) lender fee by about five basis points, from .49 to .55. This is the wrong time to be raising the fees. By all accounts – the 2008 Economic Report of the President, the Federal Reserve Board's quarterly Senior Loan Officer Opinion Survey, and SBA's own lending data – the subprime market crisis has spread to small business lending, making it harder and more expensive for small businesses to get loans. So far this fiscal year, the number of loans made through the SBA's largest loan program, the 7(a) loan guaranty program, dropped 14 percent compared with the same period last year, and dollar volume fell six percent. These figures are especially alarming because, historically, SBA loan activity has *increased* when the conventional credit market has tightened. Given this downward trend, the question becomes, what can we—Congress and the Administration—do to help reverse it and provide small businesses with the credit they need? Instead of raising fees, a good place to start would be reducing fees. For borrowers, a reduced SBA fee means more money in their pockets for capital investment. For lenders, it provides an incentive to finance the small businesses that are so vital to our economy. Although the Administration is reluctant to acknowledge the problem, the SBA's product has become too expensive in recent years, which exacerbates the financial troubles facing banks, and has caused lenders to cut back on 7(a) lending or abandon it for other, more cost-effective loan products. I propose $15 million to negate the need for raising the lender fee.

I also propose $80 million to reduce fees overall and provide funding for the Administration to implement and carry out two 7(a) pilot programs that are designed to increase access to capital to veterans and to small businesses looking to invest in energy efficient technologies. These pilot programs passed Congress with bi-partisan, bi-cameral support, as part of the Military Reservist and Veteran Small Business Reauthorization and Opportunity Act (PL 110-186) and the Energy Independence and Security Act of 2007 (PL 110-140). These provisions make SBA's loans more affordable by reducing the borrower's fee 50 percent.

For the SBA's 504 Loan Guaranty program, I request funding to offset the President's budget proposal to run the program at a negative subsidy rate and to reduce fees. The 504 loans have been performing well and the budget proposes to reduce two of the participant fees, however, the request is not enough to keep them at zero subsidy. That means the SBA will be running the 504 loan program at a *negative* subsidy rate, returning almost $1.4 million to the Treasury. The Administration could further reduce fees on borrowers and lenders, but does not believe there is enough money at stake to do so. I disagree with them and will pursue the necessary legislative change, which will require money in the budget if enacted. The Administration's approach has caused outrage among the Certified Development Companies that partner with banks to make 504 loans; they believe it is inexcusable for the Administration to keep this money. In addition to restoring fairness in fees, and compliance with the law, it is also important to try and reduce fees to encourage small business lending for those firms that are expanding and therefore creating jobs. Lending through the SBA's 504 fixed asset loan program, which had grown significantly over the past few years, has suddenly gone flat. As stated above, these figures are especially alarming because, historically, SBA loan activity has *increased* when the conventional credit market has tightened. Further, the Federal Reserve Board's quarterly Senior Loan Officer Opinion Survey found that 80 percent of the domestic banks surveyed also reported tighter lending standards for commercial real estate loans—the highest percentage recorded since the Fed began posing the question 18 years ago. Because 504 loans are for fixed assets, like real estate, we should be leveraging this tool to mitigate the credit crunch for small businesses. Consequently, I respectfully request $25 million to reduce 504 fees and to offset the cost of running the program at a negative subsidy.

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 $1.53 million in the current budget request. To better serve under-served businesses I am requesting a funding level of $10 million for FY 2009. This essential training account provides management training and business counseling to small disadvantaged businesses. I am also requesting $2 million dollars in budget authority for the HUBZone program. The $2 million in budget authority is necessary to support the many small businesses that are situated in HUBZones and lack the support to develop.

The President's budget does not request any additional funding for procurement center representatives. The Small Business Administration currently has 51 full-time procurement center representatives (PCRs) responsible for reviewing more than $400 billion in federal contracts awarded annually throughout the United States. 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 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 proposal makes significant cuts to important counseling programs at a time of economic uncertainty and a possible recession. Small businesses are often affected earlier and more profoundly than big businesses by economic changes, since they have fewer resources and are often less diversified than large businesses. Counseling programs provide key knowledge and management expertise to help small businesses survive. In order to meet the increased demand, counseling programs need more federal resources, especially after seven years of inadequate funding.

Women's Business Centers Program

The Women's Business Center (WBC) program has for years successfully provided business counseling and assistance to socially and economically disadvantaged women and is now in the process of implementing a new grant program that allows successful, established centers to again apply for matching federal funds. In order to bring back the existing centers, while continuing to fund new centers, it is imperative that the program receive increased funding. However, the President's budget requests $11.88 million, over one million less than last year and significantly less than the $16.88 million contained in the FY 08 Senate Financial Services Appropriations bill. Although the $13 million appropriated by Congress last year was a welcome increase and did provide enough funding for old centers to return to the program for half of fiscal year 2008, it was not enough to fund new centers as well. In order to allow the program to continue to grow, more funding is necessary, and I request $17.1 million for the program.

Office of Veterans' Business Development

The President's request of $743,000 for SBA's Office of Veterans' Business Development continues the tradition of underfunding this program, despite growing need for its services and increasing responsibilities. Last week, the President signed into law the Military Reservist and Veteran Small Business Reauthorization and Opportunity Act of 2008, which requires this office to increase the number of Veteran Business Outreach Centers, to implement changes to the

Military Reservist Economic Injury Disaster Loan program and increase marketing of the program, and to make permanent the SBA Advisory Committee on Veterans Business Affairs, in addition to other changes. In order to implement the required changes, while meeting the growing need of returning service members, this office requires the fully authorized funding level of $2.3 million. Returning veterans have sacrificed on our behalf and deserve the help of the government in returning to civilian life, especially in finding gainful employment.

Small Business Development Centers

In regard to Small Business Development Centers (SBDC), the President again requested $87.12 million for this program — a 9 percent cut or $10 million less than was appropriated for FY 2008. Although Congress's increase last year was a welcome relief, years of flat or reduced funding have forced SBDCs to reduce staff which has led to a decline in counseling hours and number of clients counseled beginning in 2004 and 2003, respectively, and continuing today. However, clients of SBDCs continue to show the value of the program – creating seven times more jobs than a non-SBDC client business and experiencing sales growth three times higher. In addition each federal dollar spent leads to $2.28 returned to the federal treasury in increased tax revenue. In order to adequately fund this program and return it to 2001 funding levels, I request a $110 million funding level for FY 2009.

Small Business Energy Efficiency Program

In addition, I am requesting $5 million for the Small Business Energy Efficiency Program created in the Energy Independence and Security Act of 2007. This program will help small businesses adjust to rising costs of energy by improving efficiencies. Based on a successful program in Pennsylvania, the program will strengthen small businesses, while also saving the environment for future generations.

SCORE

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 very low cost. Since its creation, SCORE has assisted more than 7.2 million entrepreneurs, including over 400,000 in FY 2007 alone. However, the President has requested only $4.95 million -- the seventh year of flat or reduced funding for this program. Last year, SCORE received $4.95 million, $500,000 less than in past years, and it is struggling to adjust to increasing costs with no increase in funding. Although the volunteers are free, the costs of space and new training programs, such as those available online, continue to increase and SCORE needs a minimum of $7 million to begin reversing the affects of years of underfunding.

United States Export Assistance Centers

According to the Commerce Department, each additional $1 billion in exports generates 14,000 U.S. jobs. And these jobs pay 18 percent more, on average, than non-trade-related jobs. Therefore, the $2.1 billion in exports that the SBA United States Export Assistance Centers (USEAC) staff facilitated in FY 2006 generated about 30,000 new high-paying American jobs in that one year. Unfortunately, SBA has withdrawn the line item for this program, which reduces transparency and makes it difficult to discern the program funding trend, versus administrative expenses. Although the President's request of $6.430 million is a slight increase over past funding request, this does not reverse the years of flat funding, and the program still has fewer finance specialists at the USEAC hubs today than in 2000 (16 today versus 22 in 2000). This directly harms small businesses wishing to export goods and services. In order to return the program to the 2001 levels, I request that $8 million be provided for the program.

Native American Outreach

The President's FY 2009 budget proposes to fund the Native American Outreach Program at $730,000. I respectfully request the FY 2009 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

The President requested no new funding for the New Markets Venture Capital Program, which provides venture capital and technical assistance to firms with high-growth potential in high-unemployment areas, both urban and rural. The lack of support from President Bush is not unusual, given that, in eight years, he has never requested money for this program. However, it is hard to understand given that the Administration has proposed an initiative to help similar firms with similar components. The "Emerging 200 Initiative" would provide grants to organizations to deliver *capital and counseling* and contracting assistance to companies in inner cities that show growth potential in high-unemployment areas. This program initiative has overlap with many programs that exist at the SBA, including New Markets Venture Capital program. I agree with the President that we need to invest in companies in these markets, but, as I said last year, when we were in a similar situation with the President's proposed "New Markets *pilot* program," we should also build on the programs that already exist. The New Markets Venture Capital program, according to information provided at a roundtable in our Committee this summer, is ahead of even the Agency's expectations in success. As with years past, I respectfully request that you restore 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.

Office of Technology

Efforts to strengthen American competitiveness through small businesses begin with the SBA's Office of Technology, which administers and monitors the implementation of both the Small Business Innovation Research Program (SBIR) and the Small Business Technology Transfer Program (STTR) programs government-wide. As these programs have grown, the responsibilities of the Office have increased, such as to monitor government-wide compliance with the SBA's SBIR and STTR Policy Directives, to carry out the Federal and State Assistance program and the Rural Outreach program, and to carry out the President's Executive Order 13329, *Encouraging Innovation in Manufacturing*. At the same time, the budget and staff for this Office have decreased. More specifically, since FY 1991, the programs have more than doubled, growing from $500 million to about $2 billion a year, yet, the budget for the Office of Technology has been cut by more than half. According to the SBA's `Historical Summary, Office of Technology,' in 1991, the Office of Technology had a budget of $907,000 and 10 positions. Today, the Office of Technology has a budget of $41,000 and 5 positions. Consequently, there has been inadequate oversight of participating agencies to meet their 2.5 percent requirement and other compliance violations that have put at risk significant small business research and development dollars. For example, at the Missile Defense Agency, at risk was $75 million in FY 2002 and $93 million in FY 2003, and at the Air Force in FY 2005, at risk was $175 million. Congress intervened and made sure the agencies awarded all the funds for SBIR awards instead of diverting the funds to other programs. Further, the lack of staffing has made it impossible for the Office of Technology to finish a pending rule from December 2004 regarding eligibility for the SBIR program. The rule is extremely controversial, pitting businesses majority owned and controlled by venture capital firms against small high-tech firms, and has interfered with Congress's efforts to reauthorize the program before it expires at the end of September. Consequently, we need the SBA to finish the relevant follow-up analysis of the comments and information they collected through public comment and public hearings and issue a final rule. To give the Office of Technology the resources it needs, I respectfully request $500,000 to add at least two additional FTEs and cover the cost for oversight, outreach, travel, and maintenance of its databases.

Elimination of Line-Item Funding

I am concerned that the President's FY 2009 Budget proposal request continues to eliminate line-item budget authority for the 7(j), HUBZones, Native American Outreach, and Office of International Trade (USEAC) programs. 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 FY 2009 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 FY 2009 so that it has reasonable funding of $356,750,000 for SBA programs.

Sincerely,

John F. Kerry
Chairman

BUDGET REQUEST FOR THE SBA -- FISCAL YEAR 2009

SBA Programs	President's Request	Committee's Request	Differential
Veterans Programs	$743,000	$2,300,000	$1,557,000
7(j) Technical Assistance Programs*	$1,530,000	$10,000,000	$8,470,000
Small Business Development Centers	$87,120,000	$110,000,000	$22,880,000
SCORE	$4,950,000	$7,000,000	$2,050,000
Women's Business Centers	$11,880,000	$17,100,000	$5,220,000
Native American Outreach*	$730,000	$2,000,000	$1,270,000
Office of International Trade (USEAC)*	$6,430,000	$8,000,000	$1,570,000
Microloan Technical Assistance	$0	$20,000,000	$20,000,000
Microloans	$0	$3,600,000	$3,600,000
PRIME Technical Assistance	$0	$15,000,000	$15,000,000
Procurement Center Representatives	$900,000	$10,000,000	$9,100,000
HUBZone*	$906,000	$2,000,000	$1,094,000
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	$95,000,000	$95,000,000
504 Loans	$0	$25,000,000	$25,000,000
Office of Technology	n/a	$500,000	$500,000
Small Business Energy Efficiency	$0	$5,000,000	$5,000,000
Total	**$115,189,000**	**$356,750,000**	**$241,561,000**

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