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

February 20, 2004

The Honorable Don Nickles
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

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

Dear Don and Kent:

As Chair of the Committee on Small Business and Entrepreneurship, I submit the following views and estimates on the President's Fiscal Year 2005 budget request for the Small Business Administration (SBA) and other matters under the Committee's jurisdiction, as directed by §301(d) of the Congressional Budget Act.

One of the most significant resources available to encourage job creation at the Federal level is the SBA. With over 6.2 million jobs created or retained over the last five years, the SBA lending and technical assistance programs have contributed greatly to small business' ability to create nearly two-thirds of the new jobs and generate about 50 percent of the nation's gross domestic product. Therefore, to ensure that small businesses continue to play a critical role in our economic recovery, adequate funding for the SBA and its programs is essential.

7(a) Loan Program. Small businesses must have access to a strong 7(a) loan program to obtain long-term financing that would not otherwise be available. Last year, approximately 67,000 small businesses, that could not obtain comparable credit elsewhere, were approved for loans in the 7(a) loan program.

For the first 3 months of FY 2004, the program was on a pace that would have resulted in a full-year program size of approximately $12.48 billion, or $2.93 billion more than the appropriated capacity of $9.55 billion. On December 23, 2003, the SBA informed the Small Business Committee that the agency would be instituting a $750,000 cap for 7(a) loans, effective January 8. The SBA informed the Small Business Committee on January 6 that the SBA was immediately shutting down the program because insufficient funds remained under the Continuing Resolution to continue to operate the program.

The SBA imposed these new restrictions retroactively to those applications that had already been submitted before January 8, but not yet approved. Thus, approximately 250 small businesses have had loan applications rejected simply because the SBA moved the deadline forward.

The SBA's request for a zero subsidy is premature because the agency has yet to provide Congress with a detailed plan as to the manner in which the 7(a) program will become a zero-subsidy program. The Committee on Small Business & Entrepreneurship is currently examining various options that would put in place a long-term funding solution for this vital program. The SBA's FY 2005 budget includes zero appropriations for this program.

The SBA received permission from both the House and Senate appropriators in early January 2004 to use approximately $4.7 million in SBA funds, carried-over from FY 2003, to fund additional loans and reopened the program on January 14, 2004.

Until Congress arrives at a new method for making 7(a) loans, with less or no appropriations, I request sufficient appropriations to allow at least $12.5 billion in loans, the demand that was demonstrated through the first three months of FY 2004 (before the loan size was reduced). At the current subsidy rate, this would require approximately $129 million in appropriations. Anything less would constrict small business growth, which is vital for the nation's economic growth and job creation.

Microloan Program. I do not agree with the SBA's request for zero appropriations for the Microloan program. The SBA has stated that the Microloan program should be terminated and the loans under this program should be approved through the 7(a) program instead. These two programs, however, serve borrowers with unique financing needs and the borrowers currently receiving Microloans have insufficient credit profiles to qualify for 7(a) loans. This point was clearly emphasized at the Committee's hearing on the SBA's budget on February 12, 2004, at which testimony was received demonstrating that Microloan borrowers have lesser credit quality than 7(a) borrowers. If the Microloan program is terminated, these borrowers will find it difficult to secure financing to fund their new or established small businesses.

The Microloan program is an important source of financing for entrepreneurs who have no other available options. Therefore, the Microloan program should be funded at $1.91 million and the Microloan Technical Assistance program at $15 million.

Federal and State Technology Partnership (FAST). Technological innovation creates jobs, improves our way of life, and helps American companies maintain their competitive advantage over foreign firms, and studies have repeatedly shown that small businesses are an efficient source of innovation. To capitalize on the small business sector's innovative potential, Congress created the Small Business Innovation Research (SBIR) program, which directs Federal research and development grants to small businesses. Congress later created the Small Business Technology Transfer (STTR) program to further utilize the innovative potential of the small business sector. These programs have proven an overwhelming success both as a spurn for small technology-based businesses and as a catalyst for innovation. Currently, these programs facilitate over $1.5 billion in government research and development grants to small businesses. Moreover, since the inception of the program in 1982, SBIR firms have produced more than 4,100 patents. In fact, since 1996 the SBIR community has been responsible for more patents than the academic community.

In order to expand and improve participation in the SBIR program, Congress created the Federal and State Technology Partnership (FAST) through the SBA. The FAST program awards competitive state-match grants, which helps foster state engagement in innovation on a national level. Grant recipients provide all types of locally-tailored assistance to technology-based small businesses participating in or interested in participating in the SBIR and STTR programs. The FAST program leverages Federal grants with state dollars to benefit small businesses as well as the national economy because the assistance-grants result in larger variety and higher-quality research and development proposals, which are more likely to produce valuable innovations.

To fully benefit from the innovative potential of the nation's small business sector, the government needs to encourage participation in the SBIR and STTR program. The FAST program provides that encouragement. Therefore, I request that the FAST program be funded at $2 million in FY 2005, equal to the level at which the program was funded in FY 2004.

Small Business Development Center (SBDC) Program. The SBDC program is the SBA's largest and most extensive technical assistance program. With more than 11,000 service delivery points nationwide the SBDC program serves more clients than all other SBA programs combined. The program provided more than 2 million training hours to almost 700,000 clients in FY 2003. Moreover, during the recession of 2001, the SBDC generated 46,688 new jobs and helped save an additional 34,215 jobs, for a combined total of more than 80,000 jobs created or retained in one year. In that same year, SBDC counseling helped its clients generate $3.9 billion in new sales and save an additional $4.3 billion in sales, resulting in $182.9 million in Federal tax revenue. In fact, the return on investment for the SBDC program is generally around two dollars in Federal tax revenues generated for every one dollar spent.

The budget request of $88 million is $1 million less than was appropriated for FY 2003 and FY 2004. This amount, while significant, fails to adequately account for the current state of the economy. Specifically, studies have consistently shown that when people are unable to find jobs, they turn to entrepreneurship, and when people consider entrepreneurship, they turn to their local SBDC for assistance. Likewise, we know that small businesses are the job creators in this country, and this is especially true in times of economic recovery – when small businesses are often the only source of new jobs. Just like prospective entrepreneurs, when existing small business owners consider expanding their business – or fear that their enterprise is at risk of failing – they universally turn to their local SBDC for high-quality, locally tailored, low-cost assistance.

Despite expanded services and an increased clientele, the SBA is proposing to level fund the SBDC program for a third year at $88 million. On the contrary, I recommend that the SBDC funding for FY 2005 be increased to $93 million so that SBDC services can continue to produce impressive results that benefit hundreds of thousands of small businesses, the millions of workers they employ, and the national economy as whole.

SCORE. SCORE is a volunteer-based small business assistance network that is both cost efficient and effective. With its reliance on a cadre of approximately 10,500 experienced volunteers, SCORE provides expert training to hundreds of thousands of entrepreneurs and small business owners each year at low or no-cost and at a fraction of the market value for such services. In fact, SCORE is so cost-efficient that the cost per hour of service in the SCORE program is less than the Federal minimum wage – comparable fee-based counseling services are estimated to cost more than $100 million.

The best measure of the value of the SCORE program is its volunteers. These volunteers are experts in the areas in which they provide counseling, and their combined knowledge, experience, and willingness to teach are some of SBA's most valuable entrepreneurial assistance resources. The fact that these educated and sought-after business men and women continue to volunteer their time to this program is the best testament there is to the value and success of the program. The SCORE program's volunteers are doing their part by offering their expertise to the nation's entrepreneurs, and now Congress needs to do its part by funding this valuable program so that small businesses around the country can do their part – which is creating jobs in the American economy.

The budget request of $5 million is equal to the request and appropriation for the past two fiscal years (FY 2003 and 2004). This amount does not allow the SCORE program to expand and update its scope of services in needed ways. Under current economic conditions, this type of business training and assistance service should be expanded not reduced. Consequently, I recommend that the SCORE funding for FY 2005 be increased to $7 million so that SCORE can expand into new sectors of the economy and new parts of the country.

U.S. Export Assistance Centers. The U.S. Export Assistance Centers (USEACs) are one-stop shops that provide small to medium sized businesses with local export assistance through a partnership with the U.S. Department of Commerce and the U.S. Export-Import Bank. The SBA is the only partner in the USEAC that offers loans that are geared toward small businesses developing or expanding in the export market.

Small businesses account for almost $300 billion of yearly export sales – nearly one-third of total U.S. exports. It is estimated that for every $1 billion earned in U.S. export dollars, approximately 14,000 U.S. jobs are retained or created. The SBA has reported that there was almost $1 billion in export sales supported by SBA's international trade loans in FY 2003, and counseled and trained almost 12,000 clients on trade and export financing during this same time period.

The SBA proposes in the FY 2005 budget to eliminate the USEAC line item, thereby terminating the SBA's involvement in the program. In FY 2004, the SBA requested $3.1 million to support the agency's presence in 19 USEACs but only received appropriations of $1.5 million for the program. Noting the importance of small business exports to this nation's economic growth and creation of jobs, and the valuable and unique assistance that USEACs provide to those exporters, I recommend the continued funding of the USEAC program at $5 million.

Office of the National Ombudsman. Despite encouraging progress reported by this office in its mission of ensuring equity and fairness in agency enforcement actions against small businesses. In the agency's performance plan, the Office of the National Ombudsman (ONO) reports that it was able to increase the level at which Federal agencies respond to small business questions and requests for assistance, and was able to promote its program to 2,000,000 small businesses through a network of contacts, presentations, and outreach to associations.

The SBA Office of National Ombudsman is charged with overseeing the ten Regional Fairness Boards that convene throughout the U.S. to listen to small businesses describe their experiences with Federal regulatory agencies. This program provides small businesses an opportunity to tell someone in the Federal government when they have been treated unfairly by agencies in enforcement actions. The ONO uses these examples to work with the agencies in helping them do a better of job of administering their regulations in a more fair way towards small businesses.

In FY 2003, the ONO held 22 public hearings in 20 states and 10 regions, including two hearings which were bilingual in English and Spanish. It also used interactive, video-conference technology to simultaneously reach four states and 12 sites. In addition the ONO, through working with OMB's Office of Information and Regulatory Affairs (OIRA) was able to establish baselines of regulatory enforcement activities as mandated by the Small Business Paperwork Relief Act of 2002.

This program therefore provides a critical link between small businesses and Federal agencies. In Fiscal Years 2001 through 2004, this program was appropriated only $500,000, making it very difficult to conduct the necessary follow-up to ensure that agencies are responding to the concerns raised through the reports submitted by the Fairness Boards.

At a minimum, this allocation should be increased to $1 million. This will permit more meetings of the Regulatory Fairness Boards to be held and more staff to be hired. Ideally, at least one meeting of a board should occur in each State each year to facilitate small business participation. Increased staff support will allow for greater specialization and thus better follow-up with the agencies.

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

Sincerely,

Olympia J. Snowe
Chair