United States Senate

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

March 15, 2002

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

The Honorable Pete Domenici
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Kent and Pete:

As Ranking Member of the Committee on Small Business and Entrepreneurship (Committee), I submit the following views and estimates on the President's Fiscal Year 2003 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.

In general, I continue to believe the SBA must rely more on the electronic delivery of services. Having staff members answering every inquiry would necessitate an unwieldy expansion of SBA personnel, leading to a further expansion of managerial staff to oversee them. The President's e-government initiatives can find a promising model in the SBA's HUBZone program, in which firms submit their applications electronically. (I have further views on specific electronic initiatives being undertaken by the SBA, below.)

However, in some areas the SBA has had additional functions imposed on it by statute, and some additional personnel and funding will be necessary to carry out those mandates in an effective, efficient, and economical manner. This is true even of the HUBZone program, as will also be discussed further below.

7(a) Guaranteed Business Loan Program. The small business community must have access to a strong 7(a) loan program to obtain long-term financing that would not otherwise be available. Each year, 40,000 or more small business concerns turn to the SBA's 7(a) program for critical financing. The budget request includes a significant decrease in the program authority from $10.5 billion to $4.8 billion. This cutback, if not reversed, will have a harmful impact on small business start-ups and growth.

During the past five years, the Committee studied closely the management of the credit subsidy rates for the credit programs at the SBA. For the past decade, the losses under the programs have declined dramatically; however, these program improvements have not been fully recognized by the Office of Management and Budget (OMB) and the SBA in calculating the credit subsidy rate. Consequently, last year Senator Kerry and I requested the General Accounting Office (GAO) to undertake a comprehensive examination of the 7(a) credit subsidy rate calculations.

In July 2002, the GAO delivered its report to the Committee. Significantly, the GAO revealed that since Fiscal Year 1992, defaults and recoveries for the 7(a) program were overestimated by the SBA and OMB. What the overestimates mean in real cost is that the Federal government collected significantly more money than needed to fund the loss reserve accounts as required under the Credit Reform Act of 1990. Specifically, the GAO found that the Federal government had collected over $950 million in excess fees paid by borrowers and lenders and by taxpayers' funds appropriated by the Congress. This amount has grown to over $1.1 billion with the information supplied in the President's Fiscal Year 2003 budget request.

In response to proposed legislation to direct the OMB to correct the credit subsidy rate problem, the Budget Committee staff received assurances last October from the OMB that the 7(a) credit subsidy rate would not exceed 50 basis points (0.50 percent) in the Fiscal Year 2003 budget request. The Small Business Committee relied on the OMB assurances when the Congress passed S. 1196, which lowered the fees paid by the small business borrowers and lenders participating in the 7(a) loan program. The President signed the bill into law on December 21, 2001, as Public Law 107-100. Subsequently, in February 2002, and contrary to the assurances provided by the OMB to the Budget Committee staff in October 2001, the budget request included a credit subsidy rate of 88 basis points (0.88 percent), which is 76 percent higher than the level promised by the OMB.

To some, this difference might seem slight--merely splitting hairs. But in reality, the difference is significant. The 38 basis points (0.38 percent) above the maximum level set by the OMB last fall means that the Congress will need to appropriate at least an additional $45.6 million, and probably more, to fund the 7(a) loan program in Fiscal Year 2003. Based on the GAO analysis of the credit subsidy rate, it will not be long before this additional appropriation, along with some fees collected from borrowers and lenders, will be found to be "excess" and will be sent to the general Treasury. It is clear that the SBA and OMB will be collecting fees well in excess of the program's needs. Unless changes are made to this process, the Congress will have to resort to appropriating funds, which otherwise would not be needed, to allow the 7(a) program to meet the credit needs of the small business community.

HUBZone Program. The Historically Underutilized Business Zone (HUBZone) program is one area in which additional funding is needed. This program was adopted in the Small Business Reauthorization Act of 1997 and authorized at $5 million for Fiscal Years 1998 through 2000. In the Small Business Reauthorization Act of 2000, the HUBZone program was reauthorized at $10 million for Fiscal Years 2001 through 2003. Actual appropriations for this program, however, have remained at $2 million each year for Fiscal Years 1998 through 2001. In 2002, an unexpected omission in the Commerce-Justice-State Appropriations bill deleted the HUBZone program funding, although in the Defense/Supplemental Appropriations bill the Congress subsequently directed that HUBZone funding be restored through a reprogramming request.

Although the Federal government has numerous economic development programs, the HUBZone program is a unique response to a particular problem. Economic development in distressed areas is particularly challenging due to the lack of an established customer base. Tax abatements, regulatory relief, and other incentives to attract small business into distressed areas are important but inadequate. Indeed, if businesses that locate in historically underutilized business areas do not have customers, they will soon fail and the economic development efforts will be for naught. The HUBZone program answers this need by providing incentives for the government to act as a customer to these businesses. While HUBZone firms stabilize their revenues and establish a non-governmental customer base, Federal contracts can keep these firms alive and keep the economic development effort from collapsing.

Consistent underfunding of the HUBZone program threatens the program's ability to deliver on these promises. In Fiscal Year 2003, Federal agencies are to award 3% of all prime contract dollars through the program, or approximately $6 billion in prime contracts. Moreover, § 8(d) of the Small Business Act requires large business concerns to submit HUBZone program subcontracting plans in contracts over $500,000 ($1 million for construction contracts). To date, the SBA has certified over 4,700 firms in the HUBZone program, a substantial improvement over last year. However, 4,700 firms is still insufficient to support this volume of contracting. Additional funding is necessary to seek out and certify a sufficient number of qualified firms, and particularly to identify firms that supply goods and services needed by Federal purchasing offices in different regions of the country. As HUBZone participation increases, the need for increased enforcement and oversight of program requirements will also increase correspondingly. Accordingly, the HUBZone appropriation for Fiscal Year 2003 should be increased, at a minimum, to the $5 million originally authorized in the HUBZone Act of 1997.

Procurement Center Representatives (PCRs). Like all Federal agencies whose workforce is nearing retirement age, the SBA also faces a serious "brain-drain" of procurement knowledge as its staff of Procurement Center Representatives (PCRs) has shrunk below sustainable levels. Moreover, many of the existing staff have no funding to travel to the procurement centers nominally assigned to them, so the SBA's ability to monitor and strengthen small business contracting is even less than it appears on its face.

Failure to hire and retain sufficient PCRs will further diminish the SBA's ability to carry out its statutory mandates as existing staff retires. Procurement is a technical discipline that requires knowledge and experience to manage effectively. Insufficient staff cannot be overcome by tasking these responsibilities to other SBA employees as a part-time function. Without enough PCRs, the SBA will be unable to work with procuring centers to develop small business-friendly procurement strategies, and will be forced to intervene at the last minute (for example) to appeal proposed bundling of contracts. This will result in delays in contracting by other agencies, frustrating their efforts to carry out their own responsibilities.

Accordingly, the budget should include funding to hire and train an additional 20 PCRs in Fiscal Year 2003, while replacing attrition among existing PCRs. Based on costs to hire PCRs in the past, this will require an additional $2 million for the SBA Office of Government Contracting. Reports accompanying the budget resolution should clearly state the purpose for which this funding is provided, to ensure it is allocated to its intended purpose.

Federal and State Technology (FAST) Partnership Program. This program, established by the Small Business Innovation Research (SBIR) Program Reauthorization Act of 2000, is a competitive matching-grant program to encourage States to create an atmosphere conducive to the development of high-technology small businesses, including the establishment of coalitions of university and private sector organizations. While the program is administered by the SBA, each agency with an SBIR program participates in the determination of State programs that should be funded. The FAST program is intended to support the SBIR program, by marshalling more and higher quality research and development proposals to SBIR agencies.

The SBA was appropriated $3.0 million for the FAST program for Fiscal Year 2002. Fifty States, the District of Columbia and four territories are eligible for funds under the program. While funding under the FAST program is to be provided on a competitive basis and the program does not require that each State receive funds, if each State or jurisdiction submits an eligible proposal and receives funds, the average grant amount will be approximately $54,500. This amount is insufficient to provide an effective incentive to States to encourage the development of small, high-technology businesses. Therefore, I request that the FAST program be funded at its authorized level of $10 million.

SBIR Technical Assistance (Rural Outreach Program). One critical component of the SBIR program, to help small companies in rural States seek SBIR awards, is the Rural Outreach Program (ROP). The Rural Outreach Program provides technical assistance grants to State programs and research centers to assist small companies in preparing Small Business Innovative Research submissions seeking research awards. Currently, many of the SBIR awards are awarded to small businesses in urban States. The ROP is designed to create a more competitive atmosphere by providing rural States with leverage to assist their small businesses seeking research awards. Currently, 25 States participate in the ROP.

For Fiscal Year 2003, the Administration seeks to fund the ROP at $500,000. This amount would provide only $20,000 per State, which is insufficient for States to maintain even their current ROP efforts. I believe that the ROP should be funded for Fiscal Year 2003 at its authorized level of $2 million.

Office of National Ombudsman. Once again the budget request proposes to under-fund and undermine the importance of this program by requesting the same flat-line amount of $500,000, which has served as a virtual placeholder for this line-item. I find this astonishing. When President Bush was sworn into office, he took an early lead in reviewing the crunch of last-minute regulations pushed through by the outgoing Clinton Administration. It is therefore remarkable that the Administration's budget shows so little support for Office of National Ombudsman and its efforts to monitor the impact of regulations on small businesses. I would think this program would be in-tune with the President's oversight of agency regulations and would warrant greater support.

The Regulatory Fairness program, administered by the Ombudsman, was created under the Small Business Regulatory Enforcement Fairness Act (SBREFA) that passed the Senate without opposition in 1996 (Public Law 104-121). 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. This is not about small businesses trying to avoid their responsibilities; it is about providing a sounding board so that the Administration and the Congress can find out what is actually happening out in the country.

This program therefore provides a critical link between small businesses and Federal agencies. In Fiscal Years 2001 and 2002, 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. This undermined the ability of the program to meet the goals I envisioned in the SBREFA legislation.

At a minimum, this allocation should be increased to $1.625 million. This will permit more meetings of the Regulatory Fairness Boards to be held and more staff to be hired. With ten Regional Fairness Boards throughout the country, at approximately $10,000 per meeting, the previous allocation only allowed one meeting of each board per year. This should be increased to at least four meetings per board per year, which will require an increase of approximately $300,000. Ideally, at least one meeting of a board should occur in each State each year. Further, increased staff support will allow for greater specialization and thus better follow-up with the agencies.

Finally, this greater allocation will permit more promotion of the program and greater use of technology by designing better on-line filing options for small businesses to file their complaints. One of the problems with this program has been a lack of awareness among small businesses, so that they have not come forward with their accounts of how they were treated by Federal agencies. This can be resolved, consistent with the President's e-government initiatives, through technology.

Small Business Development Center (SBDC) Program. The SBDC program is the SBA's largest management and technical assistance program. The SBDCs serve more small businesses and individual entrepreneurs than all other SBA programs, credit and non-credit, combined. In Fiscal Year 2001, the SBDC program provided counseling and training assistance to over 600,000 persons and small businesses.

The budget request of $88 million is the same amount that was appropriated for Fiscal Year 2002. This amount, while significant, fails to address the changes that have occurred in recent years. As the result of the 2000 Census, twenty-four State SBDC programs have taken cuts in SBA funding for Fiscal Year 2002. These twenty-four States took cuts, not because they lost population, but because their population did not grow as fast as the national average during the 1990s. Consequently, I recommend that the SBDC funding be increased to $105 million so that SBDC services will not be curtailed in States that are experiencing decreases in funding from the SBA.

E-Government Portal Business Compliance One-Stop. The request for $5 million to develop a better government Internet portal for small businesses is one that requires close scrutiny. In the past, I have been concerned about the SBA's ability to define clear project goals. Sometimes, it appears that the SBA's appetite for funding is greater than its ability to manage and implement the task all the way through to completion. The Committee has submitted to the SBA a number of questions in this area, following the SBA budget hearing conducted on February 27th. Answers to these questions will provide a better idea of an appropriate funding level for this initiative. My staff will be at your disposal for funding discussions when those answers have been provided and reviewed.

Other E-Government Initiatives. I support the President's request for $2.8 million to upgrade information technology infrastructure and to enhance IT security. Obviously, the current international environment has made all government entities more conscious of security needs, both physical security and electronic security. I am concerned that the SBA has been slow to conduct risk assessments, and I urge the SBA to complete them during Fiscal Year 2003. The President has also proposed $750,000 to implement an electronic documents management system. I support this effort.

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 reform agenda and of the need for a strong small business program. If you have questions about this letter, please contact Cordell Smith of my Small Business Committee staff at (202)224- .

Sincerely,

Christopher S. Bond
Ranking Member