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

February 18, 2005

The Honorable Judd Gregg
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 Judd 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 2006 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.

Small businesses drive our nation's economy, creating nearly two-thirds of all new jobs and generating about 50 percent of the nation's gross domestic product. Through the SBA's valuable lending and technical assistance programs, over 4.5 million jobs have been created or retained since 1999. Therefore, we have a responsibility to ensure that this Federal resource that provides a tremendous return on investment receives adequate funding.

The Administration has proposed a budget of \$592 million, this represents a 13 percent decrease from the agency's 2005 request and a 26 percent decrease from the 2004 request. When one considers that the SBA's budget represents less than 3/100ths of a percent of the total budget, and the significant benefits from the jobs and economic growth generated from the SBA's programs, there is no doubt that we should bolster our investment in small businesses.

Small Business Development Center (SBDC) Program. The SBDC program is the SBA's largest and most extensive technical assistance program, with more than 1,100 service delivery points nationwide. Since its inception, the SBDC program has served almost ten million clients, including new business start-ups, struggling firms, and firms seeking to grow and expand. The SBDC program is a tremendous bargain for the taxpayers, returning \$2.60 in Federal tax revenues for every one dollar spent. In addition, the SBA reports that in 2003, the SBDCs training and counseling helped create or retain 163,647 jobs and generate almost \$7.2 billion in tax revenue.

The SBDCs have exceeded the SBA's goals, reaching more customers and providing higher levels of service. However, the SBA proposes to level fund the program for a fourth year. In FY 2004, the SBDCs experienced for the first time the impact from this level funding, which was a result of not having sufficient funds to employ the number of counselors needed. While

the SBDCs counseled and trained more clients than ever before, the hours of counseling decreased by almost 100,000 hours, in addition to a decrease in the average hour of counseling per client. The SBA is proposing to level fund the SBDC program at \$88 million. However, in order to account for costs, inflation and expanded services, I recommend that the SBDC funding for FY2006 be increased to \$109 million.

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. The borrowers currently receiving Microloans, however, 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 17, 2005, at which testimony was received demonstrating that Microloan borrowers have credit qualities, collateral, and financing needs that are significantly different from those required in the 7(a) program. If the Microloan program is terminated, these borrowers will find it difficult or even impossible to secure financing to fund their new or established small businesses.

The Microloan program is a small, efficient, cost-effective program and stacks up very well on a jobs per dollar comparison to the larger SBA loan programs. For example, in 2004, according to the SBA's Office of Advocacy, the 7(a) program created or retained one job for every \$23,600 in loans, and the 504 program created or retained one job for every \$26,043 in loans, while the Microloan program created or retained one job for every \$3,608 in loans.

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

Procurement Center Representatives (PCRs): Small business contractors save taxpayers' dollars, provide innovative solutions for the government's needs, and, in FY2003, used federal contracts to create over 490,000 jobs. However, bundling of government contracts continues to be a major barrier for small businesses seeking to grow by competing in the Federal marketplace. The SBA polices contract bundling practices through its Procurement Center Representatives (PCRs), which are placed at major federal procurement centers to review proposed acquisition plans and advocate for more competition in contracting.

However, the SBA's PCR staffing levels have been woefully inadequate. The SBA proposes to staff only 56 PCR slots, which would leave approximately 100 of the top procurement centers without dedicated PCR coverage. I therefore request a \$10 million increase to the Salaries and Expenses account to hire 100 more Procurement Center Representatives.

Historically Underutilized Business Zone (HUBZone) Program: The HUBZone program, which gives contracting preferences to firms located in economically distressed areas, is a vital tool of urban and rural development. Since its inception, the HUBZone program has delivered significant Federal contracting opportunities to the areas that need them the most. However, the

Federal government consistently failed to meet the HUBZone statutory prime contracting goal every year. Therefore, I request that the HUBZone program be funded at its full authorization of \$10 million.

7(j) Procurement Technical Assistance Program: The 7(j) Program is intended to provide procurement technical assistance and training to small disadvantaged firms and owners of firms located in economically distressed areas. The SBA's budget proposes to place all 7(j) funding under Executive Direction, which would limit needed Congressional oversight. I recommend funding of \$2.5 million for the 7(j) program, in order to increase program access and assure accountability.

SBIR/STTR Technical Assistance Grants (Federal & State Partnership and Rural Outreach)
The Federal and State Technology Partnership program (FAST) provides technical assistance to small businesses that compete for government grants and contracts under the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programs. FAST is a competitive grants program that allows each state and territory to receive funding in the form of a cooperative agreement to provide services that support the SBIR and STTR programs. In the 2000 SBIR Reauthorization Act, Congress created the FAST program to strengthen the technological competitiveness of small business concerns in all 50 states. At that time, Congress also extended the SBIR Rural Outreach Grant Program ("ROP"), which provides certain states, with relatively low participation in the SBIR and STTR programs, an opportunity to receive grants to support statewide efforts to increase their participation levels in the programs.

The SBA proposed to zero these programs out. However, in testimony before the House Small Business Committee in May 2003, the SBA explained that, "Participating agencies in the SBIR and STTR Programs have reported a significant increase in the number of proposals received for their current solicitations, which we believe is attributable to outreach and training provided by FAST and Rural Outreach grant recipients." Therefore, given the proven success of these programs, I ask that you fund the FAST line item at \$3 million and the ROP account at \$1 million.

SCORE. SCORE is a volunteer-based small business assistance network that is both cost efficient and effective. With its reliance on 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 low or no-cost. 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. In SCORE's 41 years of volunteer service, they have served nearly 7 million clients and in FY2004 donated 1.4 million hours of volunteer service.

This is the fourth year the SBA has requested \$5 million for SCORE. This has hindered the program from expanding and updating its scope of services. Consequently, I recommend that the SCORE funding for FY 2006 be increased to \$7 million so that SCORE can adequately meet the needs of small business.

Women's Business Centers (WBCs). The success of women-owned firms is undeniable. In 2004, they generated almost \$2.5 trillion in revenues and employed more than 19 million workers, making them the fastest growing segment of today's economy. The SBA has estimated that in FY 2004, the Women's Business Center program provided counseling and training to 122,712 clients. However, like the Small Business Development Center program and SCORE, the SBA proposes to level fund the WBC program for a fourth year at \$12 million. According to the SBA, in 2003, WBCs helped create or retain 6,500 jobs and generate \$235 billion in revenue. Given these results, I recommend the WBC program funding for FY 2006 be increased to \$16.5 million.

U.S. Export Assistance Centers (USEACs). 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.

U.S. small business exporters have more than tripled between 1987 and 2001, from 60,000 to 230,00, and they now 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 reports that they approved over 2,200 loans supporting almost \$1 billion in export sales in FY 2004. In addition, during that same time period, the SBA counseled and trained almost 4,500 clients on trade and export financing.

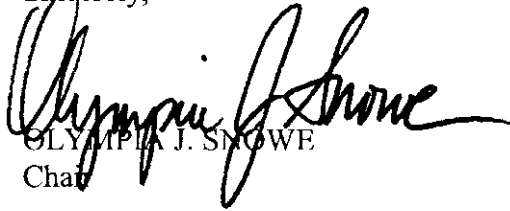
The SBA proposes for a second year to eliminate the USEAC line item and thereby terminate its involvement in the program. Noting the importance of small business exports to this nation's economic growth and creation of jobs, and the valuable and unique assistance that USEACs provide to exporters, I recommend the continued funding of the USEAC program at \$5 million.

Veterans Business Development Program. Since September 2001, approximately 350,000 National Guard and Reserve personnel have been mobilized in support of current operations. A recent Department of Defense survey estimates that 29 percent of Guard members and Reservists either own or are employed by a small business. As a result of activations, many small businesses have been forced to go without their owners and key personnel for months, and sometimes years, on end. The effects have been devastating to these patriotic small businesses that are owned by, or employ, Guard members and Reservists. The SBA Office of Veteran Business Development has made a concerted effort to reach out to small businesses affected by deployments, but given the sheer number of those deployed, their resources have been stretched thin. In addition, the Office of Veterans Business Development has been required to broaden their delivery of services, as directed by Executive Order 13360, to provide procurement training programs for service-disabled veterans. Therefore, to stem the effects of Guard and Reservist deployments on small businesses and to better assist service-disabled veterans, we respectfully request an appropriation of \$1.5 million for the SBA's Veteran Business Development Program.

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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