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

March 16, 2001

The Honorable Pete Domenici
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 Pete and Kent:

As Chairman of the Committee on Small Business, I submit the following views and estimates on the President's Fiscal Year 2002 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. 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.

7(a) Guaranteed Business Loan Program. The small business community is dependent on the SBA 7(a) program to obtain long-term financing at a competitive interest rate. Each year, 40,000 or more small business concerns, who cannot obtain comparable credit elsewhere, turn to the 7(a) program for critical financing. Currently, both the borrowers and the lenders pay significant fees to the SBA to help offset the credit subsidy cost necessary to underwrite the program. The Fiscal Year 2002 budget request seeks to increase the fees paid by borrowers and lenders to offset the need for an annual appropriation. The net result of the Administration's budget would be to drive both the small business borrowers and the lenders from the program. I do not believe it is the intention of the Administration, nor is it the intent of the Congress, to deny needed business loans to small business borrowers at the same time the economy is slowing and credit underwriting standards have tightened significantly. Therefore, I strongly recommend that $118 million be added to the Business Loan Account of the SBA Fiscal Year 2002 budget to support an $11 billion 7(a) loan program.

Small Business Development Center (SBDC) Program. Federal funding of the SBDC program constitutes the seed funding for the program, which is leveraged one or two times by state, local, and private funds. Recent accomplishments of the program include serving more than 595,000 small businesses annually, which created more than 90,000 jobs and generated $5.5 billion in sales, leading to nearly $600 million in tax revenues.

In the Fiscal Year 2002 budget request, the Administration is proposing that the SBDCs be required to collect fees from small business owners and entrepreneurs to reduce the annual appropriation by $12 million. This is not a new proposal to the Congress. In 1997, in response to an SBA budget request for Fiscal Year 1998 which directed that the SBDCs begin charging fees, the Congress passed a law (§ 502(d) of the Small Business Reauthorization Act of 1997) prohibiting the SBDCs from imposing or collecting fees in connection with the small business counseling services provided by the program. This prohibition should not be rescinded or modified, and funding of the SBDC program, at not less than $105 million, should be included in the SBA budget.

HUBZone Program. The Historically Underutilized Business Zone (HUBZone) program is one area in which additional funding is indicated. 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.

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; if the businesses that locate there 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.

Regular underfunding of the HUBZone program threatens the program's ability to deliver on these promises. In Fiscal Year 2002, Federal agencies are to award 2.5% of all prime contract dollars through the program, or approximately $5 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). The SBA has certified 2,648 firms in the HUBZone program, which is not enough to support this volume of contracting. Additional funding is necessary to seek out and certify a sufficient number of qualified firms.

However, increasing the number of HUBZone-certified firms does present potential enforcement concerns. Given the tendency for all government programs to be abused by ineligible participants, the list of certified HUBZone concerns likely has at least some ineligible firms on it--either through deliberate noncompliance with, or unintentional misunderstanding of, program requirements. The HUBZone Act of 1997 sought to ensure that program benefits flow to eligible firms in distressed areas and authorized the SBA to conduct random examinations to ensure compliance. The SBA has been unable to start an examination program under the $2 million appropriated annually so far. Failure to provide sufficient funding to start such examinations will likely result in unnecessary waste, fraud, or abuse that will be discovered only when a competing firm files a protest concerning the eligibility of a HUBZone firm that has won a contract. This would result in significant delays in awarding those contracts, which in turn will increase costs for the other Federal programs affected.

Keeping the HUBZone program underfunded is thus a false economy. It means that existing appropriations are expended without fulfilling the program's unique role in developing the most distressed areas of the nation. Further, it leaves the program at risk for waste, fraud, and abuse--potentially resulting in avoidable contracting delays that will harm other programs. Accordingly, the HUBZone appropriation for Fiscal Year 2002 should be increased, at a minimum, to the $5 million originally authorized in the HUBZone Act of 1997.

Procurement Center Representatives (PCRs). The SBA also faces a serious "brain-drain" of procurement knowledge as its staff of Procurement Center Representatives (PCRs) has shrunk below sustainable levels. Information provided to the Small Business Committee in 2000 indicated that the SBA had only 35 PCRs on staff--down from 68 at the beginning of the Clinton Administration. Although I understand the SBA has squeezed its existing budget to hire 13 more PCRs, this is still far below the number needed. The General Accounting Office (GAO) reported to me that the existing PCR staff covers only 238 of the government's 2,250 procurement centers--leaving about 90% uncovered. Many of the existing staff have no funding to travel to the procurement centers nominally assigned to them, so the coverage is even less than the statistics indicate.

At the same time the staff shrunk, the Congress imposed new responsibilities on the PCRs to combat the practice of contract bundling--the consolidation of numerous smaller contracts into one massive requirement, too large for small business to perform. Left unchallenged, bundling will reduce the Federal vendor base by driving small business out of Federal procurement. The Federal government's massive purchasing power will increasingly interfere with and distort the private marketplace, prompting more consolidation into larger firms, reducing competition, and increasing long-run costs to the taxpayer.

The Small Business Reauthorization Act of 1997 provided a process to assess proposed bundlings to determine whether they are in fact necessary and justified. Unnecessary and unjustified bundlings may be challenged by the SBA to the head of the procuring agency, and in the case of necessary and justified bundlings, the SBA is to work to enhance subcontracting opportunities for small business. In July 2000, the SBA adopted final rules placing most of these responsibilities on the PCRs.

Failure to hire and retain sufficient PCRs will further diminish the SBA's ability to carry out its statutory mandate to combat bundling. 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 to appeal bundlings. 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 2002, 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 $3.5 million for the FAST program for Fiscal Year 2001. 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 $63,600. 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.

Contracting Assistance for Women-Owned Business. The Small Business Reauthorization Act of 2000 included new authority for contracting officers to help increase access to procurement opportunities for women-owned small businesses, the fastest growing sector of small businesses. Specifically, whenever contracting officers can reasonably expect two or more eligible firms to do so, they may set contracting opportunities aside for competition only among women-owned firms. Eligible small firms must be owned and controlled by economically disadvantaged women, except in industries where women are found to be underrepresented (in which case the economic disadvantage requirement may be waived). SBA is to conduct a study to determine which industries demonstrate underrepresentation of women.

A systematic and careful study will be necessary to ensure that the SBA is able to carry out these responsibilities and to make waivers of the economic disadvantage component only when permitted under the statute. Failure to prepare a proper and thorough study could cause improper application of these provisions, either depriving eligible women-owned firms of benefits authorized under the law, or giving ineligible firms benefits to which they are not entitled. Finally, the General Accounting Office (GAO) has reported that a proper and systematic study will be vital to help identify areas for improvement in the government's implementation of the 5% contracting goal for women-owned small businesses.

In view of these new SBA responsibilities, the Administration has requested $500,000 for procurement assistance to women, which is new funding compared to last year. I support this request. However, I also believe the Census Survey of Women Business should be fully funded at $1 million, not the $694,000 requested. These funds reimburse the Census Bureau for costs of conducting the regular Women Business Survey. Data from that Survey undoubtedly will be crucial to implementing the set-aside authority through the SBA Office of Federal Contract Assistance for Women. Proper funding of the Survey will help ensure collection of useful data and will reduce the need for the contracting assistance office to fill in gaps left by an underfunded Survey--thus reducing the potential for duplication of effort and the unnecessary spending that would entail.

BusinessLINC. As part of the New Markets Venture Capital Program Act of 2000 enacted in December 2000, the Congress authorized $6.6 million in annual grants to help foster public-private coalitions to enhance business-to-business relationships and mentor-protégé programs. These grants are intended to help business development in severely distressed areas by getting large firms to assist small firms.

BusinessLINC appropriations were $7 million for Fiscal Year 2001. For Fiscal Year 2002, I recommend funding at the authorized level approved by the Small Business Committee and enacted into law of $6.6 million. This is down slightly from last year, but much higher than the Administration's request for no funding.

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Small Business Investment Company (SBIC) Program. The SBIC programs are a unique partnership of public and private funds in which SBA-guaranteed funds supplement the capital of private venture capital investment firms. The SBICs are licensed and regulated by the SBA. They are privately owned and managed investment firms that make their own investment decisions. The SBIC program was reinvented in 1992, when the Congress passed legislation creating a new Participating Security program, followed by new regulations implementing a sweeping overhaul of the existing Debenture program.

The Fiscal Year 2002 budget request recommends increasing fees paid by the SBICs to offset the annual appropriation needed to fund the debentures guaranteed under the SBIC Participating Security program. This change would require an increase from 1.0% to 1.37% to the annual interest surcharge paid by the SBICs to the SBA on their outstanding balances of the SBA-guaranteed investment funds. The SBIC industry has recently informed me that it will support the Administration's budget request, including the increase in the annual interest fee. Therefore, I recommend that no funds be appropriated for funds guaranteed by the SBA under the SBIC programs.

Thank you for the opportunity to comment on programs within the Small Business 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)224-5175.

Sincerely,

Kit Bond

Christopher S. Bond
Chairman