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Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0515

March 11, 2009

The Honorable John M. Spratt, Jr.
Chairman
Committee on the Budget
207 Cannon House Office Building
Washington, DC 20515

Dear Chairman Spratt:

Pursuant to section 301(d) of the Congressional Budget Act of 1974 and House Rule X, clause 4(f), I am writing to advise you of the views and estimates of the Committee on Small Business with regard to the fiscal year (FY) 2010 budget. In addition, this letter contains the Committee's recommendations pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 for rooting out waste, fraud, and abuse, and improving governmental performance.[1]

The Committee on Small Business has legislative jurisdiction over the Small Business Administration (SBA) and this letter accordingly focuses on the fiscal year 2010 budget request for this agency and the program it operates under the authorizations contained in the Small Business Act (15 U.S.C. 631 et seq.) and the Small Business Investment Act (15 U.S.C. 661 et seq.). These programs are included in the 370 Commerce and Housing Credit budget account.

OVERVIEW

The formulation of the fiscal year 2010 budget comes during a time when the economy is in a recession. Unemployment stands at 8.1 percent and monthly job losses have exceeded more than 600,000 for three consecutive months. Demonstrating the broad and historic impact, consumer confidence fell to an all-time low last month. Housing prices remain a significant drag on the economic activity, with home prices falling for 27 months in a row. Almost every sector is struggling, including manufacturing, construction, and retail, with the recession having a broad and deep impact on all regions of the U.S.

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[1] Committee recommendations that will limit waste, fraud, and abuse, and improve governmental performance are footnoted in this letter.

Given the breadth of the recession, small businesses are being adversely affected on numerous fronts, including declining revenue and profitability, challenges related to high health care costs, and lack of access to capital. Many entrepreneurs are struggling to endure the current challenges and do not have the cash flow and assets to maintain their payroll or make additional investments. Compounding this problem are the challenges they face in securing credit. A recent survey by the National Small Business Association (NSBA) found that more than half of business owners said they have faced difficulties securing credit over the last year. The Federal Reserve has recently cited that 75 percent of domestic banks had tightened their lending standards to small firms. The result is that fewer small businesses are able to secure financing to hire new employees or expand their operations.

In response to the weakening economy, the Committee proposes a budget for the SBA of $1.43 billion, which will provide funds for the agency's core programs, on-going operating expenses, and continuing modernization efforts. This will provide more than $29 billion in loans and investment for small firms and provide $1.1 billion in financial assistance for small businesses affected by disasters. In addition, the Committee is recommending the termination of six agency programs that are either duplicative of other initiatives or are ineffective in achieving their mission. This budget, if enacted, would provide small businesses with the tools they need to weather the current economic crisis, while also building the foundation for a recovery.

LENDING AND INVESTMENT PROGRAMS[2]

7(a) Loan Program

The original mission of the 7(a) program was to provide entrepreneurs who could not access traditional capital markets with an affordable source of loans. In its current state, however, the 7(a) program is more expensive and less attractive to both small business and financial institutions that seek to participate in the program. This has become particularly problematic in the current economic climate where severe dislocations in the national and global credit markets have pushed credit availability past historic lows, making this program more important than ever.

As a result, funding for the 7(a) program must be adequate to sustain the elimination of borrower and lender fees as enacted in P.L. 111-5, the American Recovery and Reinvestment Act of 2009 and make sufficient capital available to meet the needs of borrowers in an economic environment where traditional sources of credit have experienced an unprecedented contraction in availability. To achieve these objectives, the Committee requests new funding of $606.25 million and a carryover of the $93.75 million made available in P.L. 111-5 for the purposes of fee reduction for 7(a) loans for

[2] The SBA and the OMB have not provided the Committee with credit subsidy rate estimates for FY 2010, which creates difficulties regarding the Committee's recommendations for appropriations and program volumes for the SBA's loan and investment programs. Due to this circumstance, Committee staff has estimated credit subsidy rates for fiscal year 2010.

fiscal year 2010. In total, this $700 million in funding would provide for a program level of $17.5 billion.[3] With the program's current pace of lending for FY 2009 only projected to reach $5.57 billion, a program level at $17.5 should be adequate, even accounting for a significant increase in lending activity that may result from the fee reductions and other measures contained in P.L. 111-5, the American Recovery and Reinvestment Act of 2009.

With regard to fully implementing and maintaining the increased guarantees and fee reductions contained in P.L. 111-5, however, any funds made available for these purposes should be first applied to reduce borrower fees and support higher guarantees before being used to reduce fees paid by lenders. Additionally, where resources are used to reduce lenders' costs of participating in the 7(a) program, small lenders (those with $1 billion or less in assets) should receive priority in fee reduction.

While the plain language of the provisions for reduced fees for 7(a) loans contained in P.L. 110-140, the Energy Independence and Security Act of 2007, and P.L. 110-186, the Military Reservist and Veteran Small Business Reauthorization and Opportunity Act of 2008, reflects the intent of Congress that these programs function within the existing zero-subsidy policy of the 7(a) program, the Committee supports $1 million in additional administrative funds be provided for the agency to immediately take action to implement the initiatives contained in P.L. 110-140 and P.L. 110-186. The Increased Veteran Participation program contained in P.L. 110-186 provides a more suitable alternative for veteran-owned small businesses. In particular, this program's higher guarantees, larger loan sizes, and reduced fees provides veteran borrowers with greater benefits than the Patriot Express initiative. For this reason, the Committee recommends the termination of the Patriot Express initiative because alternative programs will better serve veteran entrepreneurs.[4]

Given increasing defaults and projected positive subsidy rates in the SBA Express subprogram, the Committee recommends that this program be immediately terminated and no funds be used to support increased guarantees or fee reduction subsidies in this subprogram.[5] The initiative has grown costly and does not satisfy any public policy goal, making it a poor use of scarce taxpayer funds. If the SBA Express remains operational in any manner going forward, the Committee insists on the development of a separate credit subsidy rate by SBA and the Office of Management and Budget (OMB) for SBA Express

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[3] The Committee estimates that the credit subsidy rate for the 7(a) program for fiscal year 2010 will be 4 percent. This is based on the composition of subsidy estimates, from the *Fiscal Year 2009 Federal Credit Supplement,* which accompanied *the Budget of the United States for Fiscal Year 2009, Office of Management of Budget.* 7(a) fees contributed a positive 3.42 percent to the credit subsidy rate and the Committee assumes that the program will lose this inflow due to changes in P.L. 111-05. The additional 0.58 percent (for a total estimated credit subsidy rate of 4 percent) is the Committee's estimate of the impact of rising defaults on the program.

[4] Committee recommendation #1 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.

[5] Committee recommendation #2 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.

and does not support any appropriations for the purpose of offsetting any positive subsidy costs that this subprogram may produce.

Rural Lender Advantage Initiative

In January of 2008, the SBA introduced a new initiative under the framework of the 7(a) loan program known as "Rural Lender Advantage." This initiative is part of a broader SBA initiative to promote the economic development of local communities, particularly those facing the challenges of population loss, economic dislocation, and high unemployment. The program underwent a phased rollout to each of the agency's ten regions through FY 2008. For FY 2009, and in keeping with the Agency's 7(a) loan volume restrictions, the program will likely be limited to less than 2,000 loans. The program will likely have similar, if not smaller, levels for FY 2010. The SBA should study whether there are more targeted, cost-effective means that can increase lender participation in the 7(a) program.[6]

504 Certified Development Company Program

The 504 program has been among the best managed and most successful aspects of the SBA's access to capital mission. It should be noted, however, that rising costs in the program stemming from the current economic climate pose significant risks to the program. This is particularly relevant given the program's heavy concentration on lending for real estate projects, which are likely to see continued losses before the economy recovers.

For fiscal year 2010, the Committee requests new funding of $131.25 million and a carryover of the $93.75 million made available in P.L. 111-5 for the purposes of fee reduction for 504 loans for fiscal year 2010. In total, this $225 million in funding would provide for a program level of $7.5 billion.[7] With the program's current pace of lending for FY 2009, this should be more than adequate to sustain increased lending activity that may result from economic recovery efforts such as those contained in P.L. 111-5, the American Recovery and Reinvestment Act of 2009. This funding request assumes that

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[6] Committee recommendation #3 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.

[7] The Committee estimates that the credit subsidy rate for the 504 program for fiscal year 2010 will be 3 percent. This is based on the composition of subsidy estimates, from the *Fiscal Year 2009 Federal Credit Supplement,* which accompanied *the Budget of the United States for Fiscal Year 2009, Office of Management of Budget*. 504 fees contributed a positive 2.20 percent to the credit subsidy rate and the Committee assumes that the program will lose this inflow due to changes made to the program's fee structure in P.L. 111-05. The additional 0.8 percent (for a total credit subsidy rate of 3 percent) is the Committee's estimate of the impact of rising defaults on the program due to its exposure to commercial real estate-based projects, as well as the impact of the agency's minimal efforts to recover losses on defaulted loans. The program has a very low recovery rate of 42.51 percent.

the fee reduction provisions pertaining to the 504 program in P.L. 111-5 will be fully implemented and maintained throughout FY 2010.

For FY 2010, the Committee expects the SBA to fully implement the energy saving debenture program enacted under PL 110-140, the Energy Independence and Security Act of 2007, which expand the 504 program to accommodate financing for projects that improve energy efficiency. While no appropriation is necessary for this purpose, the Committee supports making $250,000 available in administrative funds so the agency may immediately take action to implement this program.

The 504 program faces a near certainty of increased loan defaults and decreased net recoveries in FY 2010. Although this is not unexpected during an economic slowdown, the SBA should take additional steps to increase its liquidation and recovery efforts for loan defaults in the 504 program. Sufficient resources should be made available to provide 504 Loan Servicing Centers with sufficient staff to handle the increased defaults, as well as sufficient funds for the purposes of reimbursing Certified Development Companies (CDCs) for their costs in recovering defaulted 504 loans.[8] It is expected that these efforts will reduce the government's overall cost of operating this program.

7(m) Microloan Program

In FY 2010, the Committee recommends funding of $6 million to support $50 million in loan volume through this program.[9] Additionally, $25 million in funding should be provided for technical related assistance. These figures should be sufficient to support new entrepreneurs that traditionally seek out Microloan financing in an economic downturn, while providing for growth in the program that may result from an economic recovery.

Small Business Investment Company (SBIC) Program

The SBIC program was the only active SBA capital access program that saw growth in FY 2008. Additionally, for the first half of FY 2009, the SBA has issued six new SBIC debenture licenses. These factors, combined with the possibility of increased demand attributable to economic recovery, suggest the need for an increased program level authorization in FY 2010. Consequently, the SBIC program should be authorized at a program level of $4 billion which, due to its zero subsidy requirement, does not require any funding.[10] However, the Committee is concerned that this policy will increase the

[8] Committee recommendation #4 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.

[9] The Committee estimates that the credit subsidy rate for the 7(m) Microloan program for fiscal year 2010 will be 12 percent. This is based on the subsidy estimates from the *Fiscal Year 2009 Federal Credit Supplement,* which accompanied *the Budget of the United States for Fiscal Year 2009, Office of Management of Budget.* The Committee believes that the deteriorating economy will increase program defaults and result in an approximate 20 percent increase in the credit subsidy rate, raising it from 10.12 percent to 12 percent.

[10] 303(b) of the Small Business Investment Act (15 U.S.C. 683(b)).

costs for small businesses and may ultimately undermine the program's ability to serve start-ups and high-growth companies in need of equity capital.

This increased program level should be sufficient to accommodate program growth, which is likely as startup investment expands in the wake of a potential economic recovery and through stimulus efforts such as those contained in P.L. 111-5, the American Recovery and Reinvestment Act of 2009.

For FY 2010, the Committee expects the SBA to fully implement the energy saving debentures and increased leverage limits enacted under PL 110-140, the Energy Independence and Security Act of 2007, which expand the SBIC program financings for projects that improve energy efficiency. While no appropriation is necessary for this purpose, additional administrative funds should be made available in the amount of $500,000 so the agency may immediately take action to implement these initiatives.

New Markets Venture Capital Program

For this program to provide equity and near-equity capital in low- and moderate income areas, the Committee supports program funding of $5.1 million to guarantee $30 million in debentures under the program and provide $5 million in operational assistance grants.[11] This is particularly important for both rural and urban communities that relied heavily on manufacturing industries and are faced with seeking new ways to spur job creation and economic development.

Renewable Fuels Capital Investment Company Program

A Renewable Fuel Capital Investment (RFCI) program was created in December of 2007 under PL 110-140. This program authorized the creation of specialized Renewable Fuel Capital Investment Companies (RFCIC) to issue SBA guaranteed debentures to invest in small businesses engaged in researching, manufacturing, developing, and bringing to market renewable energy sources. This includes the development of biodiesel, ethanol, and related research concerning other biomass fuels such as cellulosic ethanol. It also includes investment in wind-, solar-, hydro-, and geothermal-related energy projects.

To date, the SBA has taken no action to implement the RFCI program. Under the existing statutory framework of the program, no appropriation is necessary to implement the RFCIC program. Nevertheless, $30 million should be provided for the purpose of reducing or eliminating fees associated with debentures issued under the program. Additionally, $15 million should be used to implement the operational assistance grants

[11] The Committee estimates that the credit subsidy rate for the New Markets Venture Capital program for fiscal year 2010 will be 17 percent, which is approximately equal to the subsidy rate reestimate for the last cohort year of debentures issued through this program. This is based on the loan subsidy reestimates from the *Fiscal Year 2009 Federal Credit Supplement,* which accompanied *the Budget of the United States for Fiscal Year 2009, Office of Management of Budget.*

to RFCICs. Venture investments create jobs and industries at home and will help the nation become a leader in these new technologies.

Disaster Loan Program

The Committee recommends that $101 million be provided for administrative expenses, including loan making activities and performing disaster simulations, catastrophe modeling, workforce and logistical improvements that were required under P.L. 110-234, the Food and Energy Security Act of 2007.

Unlike other disaster management agencies, the SBA does not build a contingency fund to respond in the event of major disasters such. Consequently, the agency remains overly dependent on ad hoc appropriations requests and is not prepared to respond to a major disaster. For this reason, the Committee recommends that the agency carry over remaining funds from fiscal year 2009 for this purpose.

The Committee recommends that $220 million be provided for the loan-making function. This would be sufficient to support approximately $1.1 billion in loan making, the normalized 10 year average.[12] The Committee also recommends that additional funds be appropriated for the disaster loan administrative function commensurate to support this level of loan making.

GOVERNMENT CONTRACTING PROGRAMS

8(a) Program

The Committee recommends a funding level of $40 million for the 8(a) program. This level of funding will support its participants and address critical management functions. The program requires more support in the field to oversee the operation of the program and to provide more surveillance and assistance to an increased number of participants. For FY 2010, the SBA should make an effort to provide special assistance to identify and secure 8(a) contracts for work under P.L. 111-5, the American Recovery and Reinvestment Act of 2009.

7(j) Program

The 7(j) program is vital to the operation of the 8(a) program particularly at a time when participation has increased dramatically. The Committee recommends that the funds for the program remain a separate line item in SBA's budget request and that a grant level of $5 million be provided for the program. This funding will help the program handle the

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[12] The Committee estimates that the credit subsidy rate for the disaster loan program for fiscal year 2010 will be 20 percent. This is based on the subsidy estimates from the *Fiscal Year 2009 Federal Credit Supplement,* which accompanied *the Budget of the United States for Fiscal Year 2009, Office of Management of Budget.* The Committee believes that the deteriorating economy will increase program defaults and result in an approximate 33 percent increase in the credit subsidy rate, raising it from 14.92 percent to 20 percent.

influx of work as a result of the contracts made available through P.L. 111-5, the American Recovery and Reinvestment Act of 2009.

HUBZone Program

Last year, GAO found that the program was continually subject to fraud and mismanagement. The Committee remains concerned that the program places taxpayer funds at substantial risk for fraud, waste, and abuse. As a result, the Committee requests that $1.5 million in funding be provided to this program for the sole purpose of preparing the program for termination and providing small business participants with transitional assistance.[13]

Procurement Center Representatives (PCRs)

Due to P.L. 111-5, the American Recovery and Reinvestment Act of 2009, the PCR function is now more critical for small business contracting programs. The permanent number of PCRs should be authorized at 67 for fiscal year 2010. Sufficient travel funds should also be made available so that PCRs can monitor contracts that are regional or national in scope. For these purposes, the Committee recommends an appropriation of $8 million.

Commercial Marketing Representatives (CMRs)

The Committee recommends an appropriation of $5 million so that the SBA can employ a minimum of 40 CMRs. For fiscal year 2010, CMRs should review contracts contained in P.L. 111-5, the American Recovery and Reinvestment Act of 2009, for small business opportunities.

Office of Size Standards

The Office of Size Standards has failed to update size standards in an efficient and timely manner. As a result, the Committee recommends this office be given an appropriation of $5 million to improve its capacity to update size standards to reflect the realities of today's economic environment.

Office of Technology

The Committee supports an appropriation of $5 million for the Office of Technology. These funds are necessary to operate the Rural Outreach and the Federal and State Partnership programs, which are essential to creating entrepreneurial opportunities in rural states. In addition, SBA should permit venture capital-backed small businesses to be able to fully participate in the Small Business Innovation Research program. Such

[13] Committee recommendation #5 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.

participation is essential for high-growth small firms seeking capital, particularly during this period of economic weakness.

ENTREPRENEURIAL DEVELOPMENT PROGRAMS

The Committee recommends full funding at the statutorily-authorized levels for the agency's business development programs. Funding these programs at their capacity will establish critical levels of resources available for assisting entrepreneurs adjust to the current challenging business climate and remain key engines of economic growth.

Small Business Development Centers (SBDCs)

To improve the quality and quantity of services provided by the primary source of entrepreneurial development assistance at the SBA, the Committee requests full funding for the SBDC program under the authorized levels, at $135 million. This amount will increase the program's capacity to meet the rising and urgent demands for business development assistance from entrepreneurs throughout the country. In addition, the Committee requests $5 million for the SBDC initiative contained in P.L. 110-140, the Energy Independence and Security Act of 2007, and $5 million for the SBDC initiative contained P.L. 110-186, the Military Reservist and Veteran Small Business Reauthorization and Opportunity Act of 2008. This will provided veteran entrepreneurs and small businesses seeking to become more energy efficient with the assistance and technical advice they need.

Through the allocation of adequate resource levels, the program can expand the community-based network that entrepreneurs use to access counseling and training. These public-private partnerships target assistance to entrepreneurs based on local regional and industry needs, which are critical services, particularly for the successful adjustment to economic downturns. Last year, SBDCs helped long term clients generate a total of approximately $7.2 billion in sales and create over 70,000 new full-time jobs. The overall economic stimulus effects from investment in this program have also been extensively demonstrated. Annually, these centers generate approximately $3 in tax revenues for every $1 spent on the entire program.

Women's Business Centers

To effectively target business development assistance to women entrepreneurs, one of the fastest growing small business sectors, the Committee recommends funding the Women's Business Center program at its statutorily-authorized level, $17.5 million. This amount will ensure that these entrepreneurs have access to the tools that promote their critical role in economic growth, job creation, and industry productivity.

By allocating full funding for the program, federal contributions to the centers administered through public-private partnerships will help to stabilize existing facilities, particularly as they have faced budget cuts during the past Administration. Centers will be able to utilize their resources to provide the resources to assist women entrepreneurs adjust to the economic crisis, particularly by supporting home-based businesses, downsizing from corporate executive positions, and moving from welfare-to-work.

SCORE

To improve the effectiveness and quantity of services in proportion with their demand, the Committee recommends full funding of SBA's SCORE program according to its authorized levels at $7 million. This level would improve the capacity of the agency's business mentoring services, which are critical for entrepreneurs adjusting to challenging economic conditions.

Emerging Cities Initiative

The Committee supports the goals of this program and the use of resources to promote the success of businesses in underserved inner cities. However, the Committee believes that this program is duplicative of SBA's existing network of SBA's entrepreneurial development providers. As a result, the Committee requests that funding for this program be terminated.[14]

Office of Veterans Business Development

To meet the growing number of separating service members and reservists seeking new economic opportunities as they re-enter the increasingly challenging marketplace, the Committee recommends funding the SBA's Office of Veterans Business Development (OVBD) at its authorized level of $2 million. This would increase the level and customization of the agency's services to meet the needs of current veteran entrepreneurs.

Full funding of the agency's OVBD will ensure the implementation of its new statutory mandate contained in P.L. 110-186, the Military Reservist and Veteran Small Business Reauthorization and Opportunity Act of 2008. This includes implementing new veteran-based initiatives, the expansion of veteran assistance outreach facilities in communities across the country, and customizing resources to meet the needs of women and disabled veterans.

In addition, the Committee requests $10 million in funding for a Veterans Business Center program that the Committee plans to authorize during the year. This program will modernize and streamline the federal government's core veterans' entrepreneurial development training initiative, and provide returning servicemen and women with the tools they need to start a business.

National Veterans Business Development Corporation

[14] Committee recommendation #6 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.

This Corporation was created to provide training and entrepreneurial development services to veterans. Unfortunately, it has not reached its full potential and the American Legion and Veterans of Foreign Wars have called for its termination. The Committee concurs with this viewpoint and recommends that the funding for Corporation be terminated for fiscal year 2010.[15] Given concerns that the organization is insufficiently fulfilling its purpose to provide comprehensive assistance to separating members of the nation's military forces, the Committee is proposing improved alternatives – including the Veterans Business Center program discussed in the section above – to deliver these services.

The Committee's commitment to promoting veteran entrepreneurship remains strong. Therefore, it is critical that assistance programs to the sector are effective and that veterans have access to these resources so they can establish successful enterprises in all stages of the economy.

National Women's Business Council

Funding the Council may be duplicative of the research conducted by SBA's Office of Advocacy. However, at this time, the Committee recommends that this program be funded at $1 million. This year, the Committee will further assess this potential duplication and whether the Council still serves a purpose.

Drug Free Workplace Program

The Drug-Free Workplace program was originally created to assist small firms in the implementation of a plethora of substance abuse counseling and training activities.[16] This included creating workplace drug policies, drug prevention training and education seminars, providing for drug-testing, and counseling employees on substance abuse. Instead, the program has evolved into a subsidy solely for drug-testing centers, a private industry that does not warrant funding from the SBA, an agency whose mission is to promote and assist small businesses.

Given the financial challenges facing the government, the Committee does not believe it is prudent to use scarce taxpayer funds to purchase drug-testing services from and for viable private sector companies. Such funds would be used to support the same companies through tax relief, loan guarantees, or reducing their regulatory burden. As a result, the Committee recommends termination of program funding due to the lack of meaningful returns on the public investment.[17]

Office of Native American Affairs

[15] Committee recommendation #7 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.
[16] Section 27 of the Small Business Act (15 U.S.C. 654).
[17] Committee recommendation #8 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.

Given the significant impacts of the declining economy in Native American communities and the concomitant rise in demand for business development services for these regions, the Committee recommends $6 million in funding for the SBA's Office of Native American Affairs (ONAA), which include funds for administration, outreach efforts, and grant awards for Tribal Business Information Centers. By increasing access to business development and the expansion of tools available through the agency's entrepreneurial development, lending, and procurement programs, adequate budget resources will help to spur growth in these communities. This level of funding will ensure an expansion of assistance to entrepreneurs in these regions in terms of access to customized services.

Office of International Trade

The Committee recommends funding the Office of International Trade at $3.4 million. This will also ensure that entrepreneurs have access to tools for successful integration into global markets and to help offset declines in domestic consumption. The agency must increase its assistance to small businesses engaged in international trade to ensure their global competitiveness as the domestic economy falters, particularly through export financing and technical assistance.

The utilization of resources for international trade assistance to small business must also become more transparent. Therefore, the Committee recommends that the agency re-establish a specific line item for the Office of International Trade rather than following the approach that folded the program into the operating budget. This will ensure that Congress can monitor the agency's contributions to promoting trade opportunities for small firms and, consequently, their efforts to create new economic opportunities for the country.

OFFICE OF ADVOCACY

The Committee recommends that the Office of Advocacy be budgeted at $2 million. This funding level is essential to allow Advocacy to fulfill its mission of being the voice of small businesses in the federal regulatory process. Small businesses face a greater burden from federal regulations than their larger counterparts. Because small firms bear a disproportionate share of regulatory costs, it is essential that agencies work to minimize unnecessary burdens.

Providing Advocacy with greater resources will allow the Office to better assist agencies in crafting rules that are least burdensome to small businesses. In addition, Advocacy produces economic studies on issues of key concern to entrepreneurs. These studies provide critical information to policy makers and small business stakeholders; however, many of them are out of date. Greater funding is needed to allow Advocacy to update these studies.

CONCLUSION

With the economy contracting at a dramatic 6.2 percent annualized rate in the fourth quarter of 2008, the U.S. is facing challenges not confronted for generations. The Federal Reserve recently stated that economic activity "diminished further" through February, reducing the outlook for a near-term recovery. During these challenging times, small businesses have often provided the economic stimulus to recover, through innovation and job creation in local communities.

In fact, early twentieth century economist Joseph Schumpeter, famous for his study of business cycles and entrepreneurial activity, referred to this phenomenon as "creative destruction," an on-going process in which new companies replace those that failed to evolve with the economy.[18] Schumpeter argued that entrepreneurs, through their innovative ideas, actually propel economies forward and permit them to maintain their standing or even to reach new heights. The federal government has long had an interest in spurring entrepreneurship during periods of economic decline, doing so through the programs administered by the SBA.

The Committee's request provides a foundation for small businesses to gain access to the capital, contracts, and training they require to endure and begin to recover during this recessionary period. With the assistance of these tools, small firms will grow financially stronger and begin to create new and sustainable jobs that will support a long-term recovery for our economy.

Thank you for your consideration of the Committee's views on the Small Business Administration's FY 2010 budget submission.

With respect,

Nydia Velázquez
Chairwoman

[18] The term "creative destruction" was popularized in Joseph Schumpeter's book *Capitalism, Socialism, and Democracy*, which was first published in 1942.

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March 13, 2009

The Honorable John M. Spratt, Jr.
Chairman
Committee on the Budget
United States House of Representatives
309 Cannon House Office Building
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Dear Chairman Spratt:

I am writing to advise you of the minority's objections to the views and estimates on the President's Fiscal Year 2010 budget adopted by the Committee on Small Business at a full committee meeting on March 11, 2009. Given the information currently available in the budget, we are unable to ascertain whether the President's request for the Small Business Administration (SBA) will meet the needs of America's small businesses. To the extent that there are any legacy management problems at the agency, simply providing the agency with more money will not ameliorate the problem. Functions that can provide greater capital to small businesses and access to more federal government contracts should be enhanced; other functions should be redesigned to be made more efficient. Getting past the specifics of the SBA budget, we also are troubled by plans to significantly raise the size of the debt burden that small businesses ultimately will have to support through increased cost of capital and higher tax payments.

In February 2009, employers cut about 697,000 jobs which comes on top of 614,000 jobs cut in January – or a little more than 1.3 million jobs in just two months. Many of those cuts were made by large businesses and such jobs probably will not return.[1] That means America's entrepreneurial spirit will be relied on to pick up the slack. To lead this recovery, America's small businesses need capital, a regulatory structure that does not impose undue burdens on their ability to create jobs, increased access to federal contracting opportunities, and a health care system that does not bankrupt them when they try to purchase insurance for their employees.

[1] To the extent that the cuts came from large businesses that have declared bankruptcy or are liquidating, those enterprises will not be in existence to assist in an economic recovery.

Access to Capital

Since September of 2008, the greatest concern of our small business constituents is their inability to obtain capital. Without a functioning credit market, small businesses have no ability to invest or hire employees. Efforts so far to resuscitate the credit markets have been abysmal failures. Financial institutions that have received billions in federal assistance do not lend to small businesses; community financial institutions that are willing to lend do not have functioning secondary markets in which to sell loans so they can replenish their capital to make new loans.

The budget must provide for a means by which small businesses obtain needed access to capital. The SBA must focus its attention, as a guarantor of last resort, on ensuring that its lending markets are operating at peak efficiency. If necessary, resources within the agency should be reallocated to ensure that lenders can provide adequate capital. We recognize that additional personnel and resources may be needed to carry out that mission.

A much more troubling aspect of the budget is the significant increase in the federal debt. As the past few years have demonstrated, the capital markets are global in nature and all borrowers, whether it is the United States, General Electric, or Riemeier Lumber, compete for capital. There is little doubt in this global quest for capital, America's small businesses cannot compete against large firms like General Electric and certainly have no ability to match the borrowing power of the federal government. Yet, the voracious demand for funds in the stimulus bill, the various financial rescues and now the President's budget for the federal government will siphon off the global supply of capital that is available to small businesses. This represents the most insidious type of tax of all – increasing the interest costs faced by small business owners as they try to expand and create jobs. An increase in the federal deficit will have significant detrimental consequences on the ability of small businesses to raise capital.

Even if the federal government is able to obtain funds without increasing the interest rates that small businesses must pay to obtain capital (a highly improbable event), the level of the federal deficit cannot be sustained. Either revenue will have to be increased or government spending significantly reduced. Given the calls in the budget for a variety of new federal programs, revenue has to increase. Growth in the economy and in tax receipts would fill some of this gap. However, the greater portion of that will come from increasing taxes on small businesses. This deprives small businesses of needed funds at just the time when they should be using those funds to invest in their businesses not in paying down the debt of the federal government. Increasing taxes on small businesses seems highly counterintuitive if the object is to have those businesses lead America's economic recovery.

Regulatory Environment

Studies by the Office of Advocacy of the United States Small Business Administration reveal that small businesses are disproportionately burdened by federal regulatory regime. These enterprises have neither the financial or personnel wherewithal to follow the perambulations of the federal bureaucracy. This is especially true in these troubled economic times. Every dollar that is spent on trying to comply with an opaque federal regulatory structure means one less dollar that the small business has to invest in its operations to increase employment. Again that seems counterintuitive to what this economy needs at the moment.

Nothing in the President's budget suggests an understanding of this regulatory morass facing small businesses. For example, the new program to cap carbon emissions will adversely affect small enterprises. Entities relying on fossil fuels will pay more for energy; yet larger enterprises will have the resources to implement energy-saving technology that small businesses will have neither the time, expertise or financial resources to pursue. Even assuming that the capping of carbon emissions is a sensible goal, a regulatory structure that burdens small businesses greater than larger competitors will do nothing to help small businesses create the jobs needed to help the economy recover.

Contracting Opportunities

Federal purchases play a significant role in the economy with the government purchasing about $340 billion in goods and services in FY 2008. That will increase dramatically with the passage of the stimulus bill and the proposed FY 2010 budget. Increasing participation by small businesses in this sector is important to overall economic growth and insuring that the federal government obtains the best value for its tax dollars.

However, the labyrinthine process for obtaining federal government contracts eliminates opportunities for small business to obtain their fair share of this work. The federal government needs to simplify the contracting process while at the same time ensuring greater opportunity for small businesses, including America's service-disabled veterans for whom the government cannot even meet the 3.5 percent prime contracting goal. Furthermore, the SBA needs to have adequate resources to provide appropriate assistance to small businesses, especially additional procurement center (PCRs) and commercial marketing representatives (CMRs).

PCRs are highly trained contracting specialists who review government procurements to determine whether they can be modified[2] to increase the probability that small businesses will be successful in obtaining government contracts. More PCRs must be hired to ensure that government contracting strategies do not foreclose small businesses from seeking federal procurement opportunities. To the extent that existing SBA personnel

[2] Specifically, PCRs focus on whether government contract proposals are improperly bundled to prevent small businesses from successfully bidding on such contracts.

can perform this full-time function with retraining that would be appropriate; however, if that is not possible then the SBA should be provided the resources to hire such the necessary personnel. Given the fact that PCRs are located at major federal procurement centers, it makes sense to ensure that there should be a PCR in every state and at least one at every major federal procurement center. Even if this represents the need to hire additional personnel, it will be funds well spent.

Commercial marketing representatives (CMRs) provide assistance to small businesses by finding appropriate opportunities for small businesses to act as subcontractors to federal prime contractors. This position is important but requires less technical training than that of the PCR. Certainly an increase in the number is necessary; however, we are not convinced that this needs to come from the hiring of new employees. Reorganization of existing employees and dedicating them to more than one responsibility might provide the necessary number of employees without increasing federal expenditures.[3]

Affordable Health Care

Unlike most large businesses, the owners of America's small businesses generally are very familiar with the lives of their employees. An employee in a small business is a friend, neighbor, colleague, and may even be treated as part of the owner's family. When a worker is unhealthy in a small business, there is more to the loss than that employee's marginal value of production; distractions over concerns about the health of the employee may affect other employees and decrease general productivity. Small business owners want to provide their employees with adequate health care. On the other hand, it makes no sense to offer employees health care if it bankrupts the small business. Small business owners should not be faced with the Hobson's choice of either continuing their business or providing their employees with adequate health care.

The FY 2010 budget recognizes that health care remains a critical concern to Americans. However, nothing in that budget document specifically addresses the needs of America's small business owners for access to affordable health insurance for their employees. Nor is there any mention of any solution to the conundrum faced by small business owners on how they are to provide such coverage without undermining their financial stability. Without a sound policy for providing small business owners and their employees with adequate health care, the FY 2010 budget substantially misses its mark.

Conclusion

Expensive government does not necessarily translate into sound government. The Committee adopts that approach in its views and estimates letter. We fundamentally disagree, and believe that rational management and innovative thinking may enable the SBA to do more under the constraints of limited budgets. More importantly, we disagree with the approach of the budget because it will not provide small businesses with

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[3] One possible alternative to reach this goal is to eliminate the position of deputy district director and require these individuals to become CMRs. The function of deputy district director then could be rotated among other personnel at the district office rather than simply having one individual provide that function.

increased access to capital, reduce their regulatory burdens, improve their access to government contracting opportunities or provide them with a means to obtain affordable health care for themselves and their employees. Despite rhetoric of the importance of small business, the FY 2010 budget does not recognize the centrality of small business to America's economic recovery. Instead, it seeks to impose greater burdens on their ability to expand their businesses and create the new jobs to replace those being lost by large businesses.

Sincerely,

Sam Graves
Ranking Republican Member

Roscoe G. Bartlett

W. Todd Akin

Steve King

Lynn A. Westmoreland

Louie Gohmert

Mary Fallin

Vern Buchanan

Blaine Luetkemeyer

Aaron Schock

Glenn Thompson

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