AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

CHALLENGES TO SMALL BUSINESS GROWTH

FIELD HEARING

BEFORE THE

SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

WASHINGTON, DC, MARCH 1, 2004

Serial No. 108–56

Printed for the use of the Committee on Small Business

Available via the World Wide Web: http://www.access.gpo.gov/congress/house

U.S. GOVERNMENT PRINTING OFFICE

93–893 PDF WASHINGTON : 2004

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON SMALL BUSINESS

DONALD A. MANZULLO, Illinois, *Chairman*

ROSCOE BARTLETT, Maryland, *Vice Chairman*
SUE KELLY, New York
STEVE CHABOT, Ohio
PATRICK J. TOOMEY, Pennsylvania
JIM DEMINT, South Carolina
SAM GRAVES, Missouri
EDWARD SCHROCK, Virginia
TODD AKIN, Missouri
SHELLEY MOORE CAPITO, West Virginia
BILL SHUSTER, Pennsylvania
MARILYN MUSGRAVE, Colorado
TRENT FRANKS, Arizona
JIM GERLACH, Pennsylvania
JEB BRADLEY, New Hampshire
BOB BEAUPREZ, Colorado
CHRIS CHOCOLA, Indiana
STEVE KING, Iowa
THADDEUS MCCOTTER, Michigan

NYDIA VELÁZQUEZ, New York
JUANITA MILLENDER-MCDONALD, California
TOM UDALL, New Mexico
FRANK BALLANCE, North Carolina
ENI FALEOMAVAEGA, American Samoa
DONNA CHRISTENSEN, Virgin Islands
DANNY DAVIS, Illinois
GRACE NAPOLITANO, California
ANÍBAL ACEVEDO-VILÁ, Puerto Rico
ED CASE, Hawaii
MADELEINE BORDALLO, Guam
DENISE MAJETTE, Georgia
JIM MARSHALL, Georgia
MICHAEL MICHAUD, Maine
LINDA SANCHEZ, California
BRAD MILLER, North Carolina
[VACANCY]

J. MATTHEW SZYMANSKI, *Chief of Staff and Chief Counsel*
PHIL ESKELAND, *Policy Director*
MICHAEL DAY, *Minority Staff Director*

SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT

EDWARD SCHROCK, Virginia, *Chairman*
ROSCOE BARTLETT, Maryland
SUE KELLY, New York
TRENT FRANKS, Arizona
JEB BRADLEY, New Hampshire
STEVE KING, Iowa
THADDEUS MCCOTTER, Michigan

[RANKING MEMBER IS VACANT]
DONNA CHRISTENSEN, Virgin Islands
ENI F. H. FALEOMAVAEGA, American Samoa
ANÍBAL ACEVEDO-VILÁ, Puerto Rico
ED CASE, Hawaii
DENISE MAJETTE, Georgia

ROSARIO PALMIERI, *Senior Professional Staff*

CONTENTS

WITNESSES

	Page
Griffin, Mr. Randy, CSRA Business Lending	3
Elam, Mr. Terry, Augusta Technical College	5
Logan, Mr. Henry H., Georgia Small Business Development Center Network	8
Wilbanks, Mr. Patrick, Economic Development Institute of Georgia Tech and Georgia Rural Economic Development Center	10
Presnell, Mr. Ed, Augusta Metro Chamber of Commerce	12
Fowler, Hon. Nuby, Small Business Administration	14
Blocker-Adams, Ms. Helen, HBA Group	29
Hughes, Mr. Jesse, Accountant	30

APPENDIX

Opening statements:	
Schrock, Hon. Ed	38
Prepared statements:	
Griffin, Mr. Randy, CSRA Business Lending	40
Elam, Mr. Terry, Augusta Technical College	43
Logan, Mr. Henry H., Georgia Small Business Development Center Network	45
Wilbanks, Mr. Patrick, Economic Development Institute of Georgia Tech and Georgia Rural Economic Development Center	50
Presnell, Mr. Ed, Augusta Metro Chamber of Commerce	54
Fowler, Hon. Nuby, Small Business Administration	56

CHALLENGES TO SMALL BUSINESS GROWTH

MONDAY, MARCH 1, 2004

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT
COMMITTEE ON SMALL BUSINESS
Washington, D.C.

The Subcommittee met, pursuant to call, at 2:40 p.m. at the Historic Richmond Hotel, 725 Greene Street, Augusta, Georgia, Hon. Ed Schrock [Chairman of the Subcommittee] presiding.

Present: Representatives Schrock and Burns.

Chairman SCHROCK. Good afternoon, everyone. My name is Ed Schrock, and I am the Subcommittee Chair of the Regulatory Reform and Oversight Committee of the Small Business Committee, and I am absolutely delighted to be here in Augusta today with my good friend Max Burns.

I have never been to Augusta but, man, I was an architect major in college, and I have been going nuts here today. It is just absolutely magnificent, and I think we will probably get my wife and I to come back so I can spend some time and look through some of these old buildings.

Max really wanted me to come here today just to talk to the folks of the 12th District about some business issues. We have been doing this in different parts of the country. Max Burns—I thought I was high energy, and I am, but I am a slacker compared to Max Burns who is everywhere all the time doing everything he can for the folks down here, and I think you were———.

Chairman SCHROCK. And he does a great job for the folks down here, and I am delighted to be able to be with him today so we can listen to some of the issues that involve small businesses and the organizations that deal with small businesses, and what I am finding is the message is the same as when we were in Florida, when we were in South Carolina, my home state of Virginia, and of course the hearings we have had in Washington, D.C.

In my role as the chairman of this committee I often hear from small businesses on challenges to economic growth and prosperity.

Max has told me what an amazing group of entrepreneurs and community leaders reside in this district and, frankly, I am anxious to hear from many of them today.

I want to thank Max for making this event possible.

Small businesses in America employ more than half of all private sector employees, and create 60 to 80 percent of all net new jobs

in this country. Small businesses are always the leaders in bringing our economy back to strong economic growth and job creation.

Small businesses in this country face the same problems as many other businesses: High energy prices, the high cost of health insurance for employees, the high cost of regulatory compliance, and a tax code that is not always helpful to them. In fact, most of the time it is not helpful at all.

It is incumbent upon Congress and the President to do everything in our power to remove barriers to small businesses' success and survival, and Max and I are working on many initiatives in the House of Representatives to do just that.

We have worked on tax relief for small businesses, we have passed a bill to provide association health plans, and health savings accounts, and our committee is working to reauthorize the Small Business Administration in a way to make it help the largest number of small businesses, including manufacturers.

I am absolutely convinced that the reason we have as many regulations as we do is because the bureaucrats that sit up in Washington, D.C. have to create regulations to justify their existence. Frankly, I am and sick and tired of that; I think it has gone on entirely too long, and hopefully these hearings will help generate legislation to put a stop to that sort of thing. But like many of the bureaucrats they are probably going to be there a lot longer than I am going to be in Congress, and they think they can outwait us. Well, they have got a surprise on their hands. I intend to stay, and Max intends to stay until we get something done about it.

So with that, Max, let me thank you for inviting us, and I look forward to the witnesses' testimony, and if you do not mind if you can introduce them so we can get started that would be great.

Mr. BURNS. Thank you, Mr. Chairman. I want to add my welcome. I appreciate the opportunity to hold a field hearing here in Augusta, Georgia.

We have the opportunity to do this periodically in Washington. Unfortunately, sometimes when we do it in that environment it is not as informative, it is not as intense and as detailed as we can do here in Augusta and throughout the district.

Actually I will be doing two hearings this week, one here in Augusta, and one out in Houston on Friday on an agricultural issue dealing with animal identification. So when you start dealing with issues, the best place to learn about them is where the challenges lie, where they exist.

So I want to thank the Chairman for coming to the 12th District to join us here today. I told him about our weather, and indeed it is beautiful. I told him about our food, and Calvin was great, Calvin Green was great in sharing his expertise with us———.

Chairman SCHROCK. I am taking Calvin home with me.

Mr. BURNS. That is right, and I had a chance to take him by Enterprise Mill for a minute or two just to get a feel for the architecture and the history and the heritage of our community.

And we have, we are home, and you know it, to a number of small businesses in our communities and in our region that really contribute to our local economy, and what we are going to talk about today is jobs. We want to talk about opportunity, we want to talk about the future.

And what we asked this panel to do is to bring us your input, bring us your ideas, bring us your suggestions, and once we have an opportunity to hear from these individuals we are going to open up our dialogue and give any of you a chance to provide your input to us, and we welcome that.

The design of the hearing is really to inform and to enlighten us, and as the Chairman pointed out we have some opportunities for improvement, we have some challenges; we have successes as well. So we want to celebrate the successes, but we want to focus on the challenges and making those better, and ensuring that indeed we create jobs in Augusta, and Richmond County, and the CSRA on both sides of the river, and ensure that indeed the future is bright for our community.

I appreciate Chairman Schrock coming to the 12th District of Georgia.

Chairman SCHROCK. Max, may I just make one more comment?

Mr. BURNS. Sure.

Chairman SCHROCK. Max and I really could not serve in Congress if it were not for the strong support we have from our wives, because it takes us out of town and away from our family a lot, and I just want to recognize his wonderful wife Laura who is the back of the room.

Mr. BURNS. She slipped in.

Chairman SCHROCK. About the only time she is able to see Max is when he is doing things like this and, Laura, we appreciate you being here.

Mr. BURNS. It is a challenge, but it is a great opportunity, and I appreciate the privilege.

I want to start with Randy Griffin. I am going to ask Randy to share with us some expertise and some insights that he has. He is the President of CSRA Lending—what is the right word, Randy, lending?

Mr. GRIFFIN. Business lending.

Mr. BURNS. —business lending, I had to get the right combination of words—but the key thing that he provides to our community are opportunities for financial support and assistance, as well as other measures of small business support.

So, Mr. Griffin, if you would please share with us your insights on small businesses and small business challenges and successes.

STATEMENT OF RANDY GRIFFIN, CSRA BUSINESS LENDING

Mr. GRIFFIN. Well, thank you, Chairman Schrock and Congressman Burns for holding this hearing. On behalf of our board of directors and all our small businesses that we work with in the area we appreciate this opportunity to talk to you about things that are going on here in eastern Georgia, and primarily things that the Small Business Committee has oversight over.

Chairman Schrock, I am Randy Griffin, President of CSRA Business Lending. We are a nonprofit corporation that is licensed and has licensed lending agreements with the Department of Agriculture, the Department of Commerce, but primarily the agency that we have a relationship with and I want to talk to you about today is the U.S. Small Business Administration.

Over the last five years our organization has funded 189 projects for $87.4 million in the Augusta area, and those projects have created 1,352 jobs.

Since our expertise is small business and rural loans, I will talk to you in those areas mainly about rural communities, and the first program I want to speak to you about is the SBA–504 program. Mr. Chairman, as you know right now there is a train coming down the track that the 504 program that is our primary lending program operates at zero cost to the federal taxpayers through fees that are paid on the loans, and are collected by the Small Business Administration. The reauthorization of that program has to reoccur by March the 15th, and I am sure that is something that you are well aware of.

There are really three issues. In addition to reauthorization being the most pressing with the 504 program, there are two more things that really could help our process. And the first one I want to give you an example. I am going to show you two SBA–504 loan applications.

Congressman Burns, this is one in downtown Sylvania, your home town. This is recently a Mexican restaurant we did here in Augusta. Now, Congressman, if I take a yardstick and I put it on those applications, this Mexican restaurant is just a hair over four inches thick. Congressman Burns, the cotton gin that we did in Sylvania is just a hair under four inches thick.

Now, I have my hand an SBA Low-Doc application from the 7(a) program, in SBA's other program, that is two pages.

Chairman SCHROCK. You look like a ditech.com commercial.

Mr. GRIFFIN. If SBA can have a low-documentation application for smaller loans in the 7(a) program, certainly they can have it in the 504 program, and prevent both myself, and small businesses, and banks from having to go through this process to obtain capital in smaller amounts.

One other issue that is coming up that would be covered by House Bill H.R. 2802, the reauthorization act in the 504 program, is the changes in definitions of rural areas.

Now, Congressman Burns, both you and I spend a lot of time in Swainsboro, that is part of our territory. Swainsboro recently went over 20,000. When they did that in the eligibility for the 504 program they are no longer considered a rural community.

One of the other provisions of 2802 will make Swainsboro automatically eligible under the rural provisions for the 504 program without job creation.

Chairman Schrock and Congressman Burns, I would urge you to contact Chairman Manzullo of the Small Business Committee and Speaker Hastert, and if there is any way possible we can get 2802 to the floor for a vote prior to March 15th and get a bill signed by President Bush that is definitely a priority for America's small businesses.

Congressman Schrock, in Norfolk in your area Tidewater Business Financing Corporation from the stats I saw has done $18.5 million, funded 16 projects. Excuse me, has funded 19 projects in the last 16 months in the same program. So it works here in Augusta, and it works in your hometown.

The second issue I want to talk about is the SBA 7(a) loan program. As you are aware, there have been major funding problems in the SBA 7(a) program. The pace of loans has far exceeded the amount that was appropriated by Congress both under the continuing resolution and proposed in the 2004 budget. As a result of that, SBA has had to put a cap on the program, and as a long-term solution they are proposing to reduce the maximum amount of the guaranty under the 7(a) program from 75 percent down to 50 percent.

We can think of several, almost close to a dozen SBA 7(a) loans that we have packaged in the eastern portion of the state of Georgia that combined have probably saved close to 1,500 jobs where Rural Bank has done that loan, and would have only done it if the federal government would have stepped in in that troubled business and provided a 75 percent guaranty.

I would urge you to find a way—and, Congressman Schrock, I know you are on the Budget Committee as well—one of the solutions that I think would make sense is to eliminate the USDA B&I program. It is a program that makes guaranties very similar to the 7(a) program. The program has a very high subsidy cost, and a very high appropriation. Those funds could be diverted to the 7(a) program. The programs are duplicative, they in essence are the same except the B&I program is larger.

There has not been a B&I loan done in the state of Georgia in the last two years, even though there has been close to $14 million allocated to it.

The reason is if you think these applications are thick, you have seen nothing yet. I literally would have had to have brought a wheelbarrow in here to get that application in.

In closing, Congressmen, I would hope that the 7(a) program as you work on that issue in the Small Business Committee that you find a way to get that program funded and appropriated and continue to have the 75 percent guaranties under the SBA 7(a) program.

That concludes my comments, and I would be happy to answer any questions you have, or we can hold those until everyone has testified.

[Mr. Griffin's statement may be found in the appendix.]

Chairman SCHROCK. Thank you, Randy.

Mr. BURNS. Thank you, Mr. Griffin, we appreciate your input. Like you say, we will probably have a chance to have a dialogue discussion when we complete the prepared statements.

I want to next introduce Mr. Elam, Dr. Terry Elam, who is the President of Augusta Technical College. He has done a great job for our community in helping prepare a capable and quality workforce.

I know that one of his primary focuses is on preparing workers and those in our communities for the active workforce. Dr. Elam, if you would share with us your input.

STATEMENT OF TERRY D. ELAM, AUGUSTA TECHNICAL COLLEGE

Mr. ELAM. Chairman Schrock and Congressman Burns: I am happy to be here today.

My comments will be more on some successful things that we are attempting to do at the college, because the job market being built on small businesses of course will be the place that most of our graduates will go to work.

We are under a pretty strict mandate from the State that 85 percent of our students go to work in the field that we train them in, so it is very important that we have businesses to support those students once they graduate.

We have always been involved in economic development, but we have take two new initiatives in the last four or five years, and we are beginning to see some success on that, and I of course talk about both of those in my prepared document.

I will not need the full five minutes, but I would like to just talk to you about two things that we were involved in. Seven years ago we participated with the local government and other organizations to get a grant from EDA to build an incubator. The incubator was originally going to be run by the local Richmond County through a contract with another agency. That incubator was built next to our campus. As a matter of fact, our foundation sold the property to the government so they could build the small business incubator. It is about 18,000 square feet.

To be honest with you, it struggled at the first because of the high cost of operating the facility. Having to do all of that was just a costly thing for the government, and of course they just did not have an office that was in charge of that.

We came in about a year and a half into the operations of the particular facility, and we agreed by handshake to take over the Richmond County Small Business Incubator. We basically staffed it with one person, but we kept the structure that was already there, the advisory board, the support group, all of the things that we put together in the incubator, including Internet connections and so forth. The incubator was about fifty percent full at that point.

We cut the cost, and we then brought in one other organization, the Quick Start program that helps new businesses in Georgia, primarily large businesses, but just having them there was an inspiration to the folks in the incubator. We immediately went from five clients up to about nine, and now we are at eleven.

We do have graduates of the incubator that have gone on now to establish their businesses off-site. Two of those were featured in the newspaper this past week, Double-dot-com, and Mental Soup. They have combined with another company to form a very large company in the information technology field.

We have seen success with this, but the issue is we do not have enough money to build these incubators in all our communities, and what we would like to see is some way that the federal government along with the state in partnerships would develop strategies that we could do virtual incubators, that small businesses in Stillmore, Georgia could be a part of an incubator and have access to that information.

They may not need the space, but they need the business expertise that comes from that type of partnership. So we are proposing that in some way we accelerate the idea of incubation, but with technology today you do not have to have the physical facility, be-

cause you could very well be part of that incubator that we have on a virtual sense anywhere in the country, anywhere in the world, but primarily we are talking about our country. So we think that that is one that will work.

When we started the incubator I can tell you we were told how unsuccessful it would be, and we would not allow that to happen. We just would not accept failure as a way to do business.

So we are investing about $30,000 of Augusta Tech money, and we will get it back. Close to thirty employees coming out of the building each year who are productive, and they are able to live and produce, and hopefully grow to the point that most of them will be out of the incubator within the three-year time limit.

The other thing that we decided to do is that a lot of our students wind up in business. They have technical skills, they know how to go out and do things, they know how to make things, they know how to create, but they do not have the business savvy, so we have decided to start teaching entrepreneurship as a course to students who are currently in school, or even students who are coming back to school, and in that entrepreneurship course it is really teaching them about the legal environment, how to start up a business, how to do a business plan, how to do a plan for success, and obviously the legal environment that you are going to have to operate in. Understanding the legal environment is so important. It is not that we have to agree or disagree with the environment, but you must understand it.

The best intentions could still lead to failure if you do not hit deadlines based on the legal environment, whether it is a state, local, or federal lay. And, by the way, federal law, state laws are no less cumbersome because you can still run into a regulatory issue that will just sidetrack your business.

The other thing we are trying to teach these young entrepreneurs is that you have to put a certain amount of your own capital, not necessarily money, but the best way to make a pay check is also work in your business. Everyone cannot come up with a bright idea that someone else is going to do all the work, so we are trying to instill in these young entrepreneurs that you must be willing to put in some capital based on what you can do, and we think that these two programs will help our community in the successful ventures that will be started, because most of the jobs in the future will come from small businesses, small start-ups. The number that we can keep in business, and some will become gazelles and just grow and flourish. We do not know when we are going to have the next EZ-Go, a business that was started here and how it is huge; we do not know when we are going to have the next Club Car; we do not know when John Deere is going to start again. Because all of these businesses started off small.

I do not know of any business in this country that started off at the size it is today. So all of our business starts are from small businesses. The more savvy students have, the more entrepreneurship spirit that they have, the better and the strong our community, and the better and the stronger our nation is going to be.

Thank you for this opportunity.

[Mr. Elam's statement may be found in the appendix.]

Chairman SCHROCK. Thank you very much.

Mr. BURNS. Thank you, Dr. Elam. We appreciate your input.

I want to recognize Mr. Hank Logan. Hank is the State Director of the Georgia Small Business Development Network, SBDC, and as a graduate student too many years at Georgia State I worked with the SBDC out of that environment and with small businesses in and around the Atlanta area, and I will tell you as a young professional with already a Master's Degree in business, an engineering background and a Master's Degree, it was a tremendous opportunity for me to work with this particular agency as it works with small businesses.

So, Mr. Logan, if you would please share with us your input.

STATEMENT OF HENRY H. LOGAN, GEORGIA SMALL BUSINESS DEVELOPMENT CENTER NETWORK, THE UNIVERSITY OF GEORGIA

Mr. LOGAN. Chairman Schrock, Congressman Burns:

Thank you very much for asking my participation in this very important hearing today. It has been my pleasure to be with the University of Georgia SBDC Network for fourteen years now, and I have become quite a disciple. I think it is quite interesting, I did not realize it until today, Congressman Burns, but 25 percent of our nineteen offices are located within the 12th District.

Mr. BURNS. That is good.

Mr. LOGAN. We are really pleased.

Mr. BURNS. That is because 40 or 50 percent of all education in the state of Georgia is in the 12th District.

Mr. LOGAN. As you know, our program is a partnership with the Small Business Administration and nine universities and colleges throughout the state, and through this network we provide business consulting and continuing education opportunities to all Georgia entrepreneurs.

Chairman Schrock mentioned some of the important statistics about small business, and we hear those quoted on a daily basis. One of the more interesting statistics I believe I have ever heard is that at any given point in time 6.2 individuals out of 100 over the age of 18 is in the process of starting a business venture. That is quite amazing when you figure that you have 500,000 businesses started every year that actually come to fruition.

Now, I feel like, and have thought for years that by working with the thousands of businesses—5,431 to be exact—during the year we are positioned to get a clear perspective on the challenges and special issues that face small businesses and must be overcome on a daily basis.

We do both formal and informal needs assessments so we can keep a pulse on the business community to develop our consulting tools and our training programs to be a direct response to the greatest need.

Now, over my years with the SBDC the most frequently-stated obstacle to small business owners and aspiring entrepreneurs is their need of access to capital. Obviously Randy's testimony talking about the working capital loans, I think it is without question a big issue. I think there is also an indisputable fact, though, that most small business owners do not have the knowledge and experience

that is needed to prepare loan document requests, certainly not as we see in front of us here.

Now, I would say further that most small business owners do not even have the experience or knowledge that gives them a reasonable chance to succeed in their venture. I think that probably equal to the problem of a lack of access to capital is the lack of ability to manage and even do the necessary paperwork to obtain that capital.

As a matter of relaying this message I would like to share a client story which I always found very interesting. It happened just this past—well, actually within the past eight months. Mr. Tim Moore was the owner of American Equipment Services. He was a military reservist, and he was called to active duty and eventually deployed to Iraq. Now, initially Tim laid off his two employees, he canceled his business property lease agreement, and he employed his business manager, his bookkeeper, to fill out the necessary paperwork to apply for a military reservist's economic injury disaster loan. The SBA rejected the loan due to incomplete and inconsistent information.

While Tim was serving in Iraq, his wife Vicki was referred to the Valdosta State University SBDC for assistance in preparing another loan package. With the assistance of the SBDC consultant Scott Manley, Tim and Vicki were eventually awarded the MREIDL loan that hopefully will tide the business over until Tim can return from active duty.

Now, the interesting aspect of the Morris case was during the course of their counseling session it became obvious that they had no idea that they were keeping inadequate financial records over the life of their business, which was approximately four and a half years. They had no idea that the financial statements they were receiving from their bookkeeper were totally inadequate and very problematic in this case.

After working with Scott Manley for approximately three months they did receive a loan, but they also hired a more professional bookkeeper. And I will tell you today that Tim and Vicki probably would not be able to fill out a loan package like this, but they would at least be able to talk to a loan officer with some reasonable certainty about the facts of their business.

And the other thing is they might not be able to prepare any kind of sophisticated financial statements, but they certainly have a good basis of understanding now of what they are getting, and they do not just routinely file them away without looking at them. So we feel like that in the truest sense that the assistance that they received from the SBDC was probably equally valuable to the loan.

Now, I will go on to say today, and it will come to nobody's surprise, the MBAs, the people graduating with MBAs are not starting businesses. As Dr. Elam said, it is the electricians, it is the information technology consultants, it is the veterinarians, it is the music teachers, and these people have excellent technical skills, but they do not have the first beginning of the basic knowledge that they are going to need to create that business and make it successful.

Just a comment. The Georgia SBDC Network, it has been a real pleasure for me to be with them. We are proud of the service that we have given to our state and the entrepreneurs in our state.

We know we are successful because every year we do an impact analysis on our consulting, and every year we are able to show that the incremental tax revenues generated by our clients are over and above those of the average Georgia business. As a matter of fact, it far exceeds the budget for the Georgia SBDC Network.

Thus, the federal and state governments are earning a positive return on the investment that Georgia SBDC Network gains.

Only through the continued support of Congress would the SBA and the SBDC be empowered to assist small businesses to bring innovations to the world market and jobs to our citizens.

And, Congressman Burns, Chairman Schrock, I appreciate the support you have given in the past, and look forward to answering any questions you have.

[Mr. Logan's statement may be found in the appendix.]

Chairman SCHROCK. Thank you very much.

Mr. BURNS. Thank you, Mr. Logan, I appreciate it. And I commented to Hank earlier, it is very effective when he provides me information from the SBDC that is specific to the 12th District of Georgia, and I appreciate that, because it helps me visualize, quote, readily what SBDC has done in our environment.

Let us shift a bit. Along the same lines I appreciate Patrick Wilbanks being with us here today. He is with the Georgia Tech Economic Development Institute. In partnership with SBDC and in partnership with a number of other support organizations and consulting organizations they help our small businesses being successful.

I believe that Mr. Wilbanks is going to share with us how we are focusing on technology and technology-based entrepreneurship, the types of things that we are working hard to do in Georgia to create jobs in the high-tech environment. So, Mr. Wilbanks, share with us your input.

STATEMENT OF PATRICK WILBANKS, GEORGIA TECH ECONOMIC DEVELOPMENT INSTITUTE AND GEORGIA RURAL ECONOMIC DEVELOPMENT CENTER

Mr. WILBANKS. Chairman Schrock and Congressman Burns, on behalf of Georgia Tech's Economic Development Institute and the Georgia Rural Economic Development Center, I appreciate this opportunity to testify today regarding the opportunities to improve small business growth in Georgia as well as the nation.

Entrepreneurs and small business growth are vital to growing Georgia's economy. Small businesses with less than twenty employees generated 61 percent of all small business growth over the last four years, creating 50,000 jobs in Georgia. These businesses represent 85 percent of all Georgia firms.

Unfortunately, rural communities in Georgia have a difficult task in growing technology-focused entrepreneurs due to lack of resources, vision, and exposure to technology and innovation. In fact, over 75 percent of Georgia's mostly-rural Tier 1 and Tier 2 counties experienced declining, flat, or only single-digit growth of small businesses with fewer than 20 employees for 1999 to 2003.

Other Georgia statistics represent a need for improvement in our climate for technology-focused small businesses. Patent applications are below national averages in Georgia, and rural entrepreneurs in Georgia lag national averages in research and development commercialization.

Georgia Tech has a long history of helping to grow Georgia's technology-focused entrepreneurs and small businesses through several organizations. Our Economic Development Institute, EDI, which is a member of the Manufacturing and Extension Partnership, a national organization, the Advanced Technology Development Center incubators, ATDC, Georgia Tech Research Institute, and ENet which is a new branch which provides entrepreneur development assistance not to entrepreneurs, but to the communities within.

Georgia Tech EDI has been involved in assisting many small businesses in the 12th Congressional District, including recent clients Jebco, Incorporated, Career Personnel, Jenkins Comfort Systems, and Storm Shelter Electronics Corporation.

To get their innovations to market, technology-focused entrepreneurs need a wide variety of management and technical resources and assistance that are seldom available in rural communities. In 2001 EDI partnered with East Georgia College's Georgia Rural Economic Development Center, GREDC, in an innovative effort to foster entrepreneur development in rural Georgia. The GREDC and EDI program has helped 110 entrepreneurs and small firms start and grow businesses in a 21-county region of rural Georgia that have created more than 430 jobs.

Currently Georgia Tech and the Georgia Department of Economic Development are proposing to replicate the success of this rural program in other areas of Georgia, rural Georgia, to improve the entrepreneur and small business climate by providing the technology resources needed to grow innovative businesses.

The first component of this proposal is Georgia Tech ENet that works with the rural communities and the Georgia Department of Economic Development will educate and assist rural communities in enhancing entrepreneur development activities.

The second component is Innovation Centers located in Georgia's smaller cities outside of Atlanta will identify leading problems in industry and develop innovative solutions through research and development.

And the third component of this is Georgia Tech EDI's Business Start-Up Facilitators which will provide on-site management and technical assistance and mentoring to technology-focused entrepreneurs and small businesses with fewer than 20 employees in rural Georgia's Tier 1 and Tier 2 counties. The goal will be to commercialize these innovative solutions into new products and services.

These efforts by Georgia Tech and the Georgia Department of Economic Development will leverage many state and federal resources, as well as complement Hank's existing Small Business Development Center network. These combined resources will provide more specialized management and technical assistance to entrepreneurs and start-ups to foster innovative businesses in rural Georgia.

In addition, there are some other opportunities to improve Georgia small business climate and grow entrepreneurs. We need to upgrade the SBA program to better assist entrepreneurs and businesses. The 7(a) loan program needs to be increased to the $2 million level to include a $1 million guaranty, or adjust the 504 program to allow debt refinancing.

Also, the unscheduled shut-downs of the 7(a) loan programs needs to be prevented. There is a lot of good, legitimate business opportunities that are not able to be financed through SBA because of these issues.

We need to continue tax relief to small business to spur economic development. The Jobs and Growth Tax Relief Reconciliation Act of 2003 is an effective federal initiative to encourage small businesses to purchase new, more efficient equipment to become competitive, especially in our global marketplace today where manufacturing is having a tough time competing.

We need to expand youth apprenticeship programs, or youth entrepreneurship programs such as REAL, Rural Entrepreneurship Action Learning, in Georgia. We need to continue to expand programs to assist and support our growing number of immigrants and minority entrepreneurs. The Second Annual Regional Minority Enterprise Conference and Expo held here in Augusta last week exemplifies efforts to assist minority and nonminority business development by regional, state, and federal agencies. Georgia Tech EDI just recently opened the Georgia Minority Business Development Center funded by the Department of Commerce's Minority Business Development Agency.

Small businesses are the heart and soul of our economy. They generate jobs and revenue, and manifest the American traditions of innovation, self-reliance, and a pioneering spirit. But entrepreneurs and small business owners do not have access to all the resources they need to grow. It has been our experience that selected tax incentives and loan opportunities, low-cost technical assistance, and sometimes simply the right information at the right time can determine whether these small businesses thrive or not.

Thanks a lot.

[Mr. Wilbanks' statement may be found in the appendix.]

Chairman SCHROCK. Thank you very much.

Mr. BURNS. Thank you, Mr. Wilbanks. I appreciate your input.

We are going to now ask Mr. Ed Presnell, the President of the Augusta Chamber of Commerce, an individual who works with literally hundreds of small businesses in our community to share with us his input and his insights into the opportunities as well as the challenges that we face here in the CSRA. Mr. Presnell.

STATEMENT OF ED PRESNELL, AUGUSTA METRO CHAMBER OF COMMERCE

Mr. PRESNELL. Thank you.

I would like to take the opportunity to thank the Chairman, Congressman Burns, and the others on the Committee on Small Business for taking the opportunity to be in Augusta today and explore our needs as we try to grow our community.

I am Ed Presnell, and I am President of the Augusta Metro Chamber of Commerce. Our Chamber is made up of over 1,800

members, most of which are small businesses. Each one of our members faces the challenges of an increasingly competitive and turbulent marketplace. I marvel at the ingenuity and resourcefulness of our small businesses as they turn their dreams into reality.

We are all aware that launching a small business is a risky activity and that the failure rate sometimes is high. But those that do succeed and grow are the backbone of our economy , and the greatest producer of new jobs in our community. That is why the Augusta Metro Chamber of Commerce has focused on providing services to small businesses, as well as assuring that our community is a business-friendly environment. I know your Committee shares the same goals.

Small businesspeople often start with little more than a vision. Many obstacles stand between them and even starting a business. The greatest of these obstacles of course is money. Everyone has at one time had an idea for a business. Most of these pass quickly from mind as the reality of what it takes to start a business ultimately sets in. Even with the many financing options today, funding a new small business remains a challenge.

Many individuals pass through our Chamber looking for assistance in starting up a business. We often refer them to many of the people that you have already heard from. The questions, however, are usually the same. How do I get funding for my business? and What are the rules and regulations that I must follow?

Traditional lending sources often shy away from the risk involved in starting a small business. That is why it is so important that government support programs targeted towards small business are continued. Secondly, regulation of businesses from the federal level to the local level needs to be simplified and centralized. Small business owners often lack the experience with government and its maze of procedures, therefore eliminating extraneous regulations and centralizing their administration is important to facilitating new businesses.

Once a business is established there are new challenges. These include finding and keeping quality employees. Businesses of all sizes face the challenge of finding the proper mix of skills and education to meet their needs, but small businesses often face an extra challenge offering a pay and benefit package that allows them to attract quality employees and retain them.

Health care is an increasingly important part of our lives. As costs rise for care, and insurance costs rise along with them, the small business owners and their employees are often left on the outside looking in. Premiums for quality insurance are beyond the reach of most small businesses. Owners find themselves placing their future at risk so as to keep their business growing, and employees find themselves forced to look for employment where they are able to get better benefits. Programs that allow for increased options for small businesses in obtaining health care should be pursued.

Retirement is the second benefit often associated with employment that is difficult for small businesses to provide. The costs and administrative hurdles of providing savings for the future often make this needed consideration far too optional for small business. As Chairman Alan Greenspan indicated in his comments last week,

our country faces a growing crisis regarding retirement savings. I am afraid those involved in small business might be especially vulnerable. Small-business-oriented retirement savings plans should be considered.

Small business is the strength of the American economy. Every megacorporation at one point was a small business, and tomorrow's will be as well. Small business does not outsource its employees to foreign countries or command expensive incentives to expand in a community. Small business simply needs an environment ripe for growth. In order to secure the future of small business in our country, and therefore secure our economy of the future, we need to make sure that we encourage small business development by removing roadblocks to success.

In closing, I would like to thank the Committee for taking the time to come to Augusta. On behalf of the membership of the Augusta Metro Chamber of Commerce and all small businesses in our community, thank you for the work you do to improve opportunities for business, and please continue to look for new ways that we can make small business more competitive in today's marketplace.

[Mr. Presnell's statement may be found in the appendix.]

Chairman SCHROCK. Thank you.

Mr. BURNS. Thank you, Mr. Presnell. I appreciate it.

We are delighted to have with us also today Ms. Nuby Fowler. Thank you for joining us. I know travel is always a challenge. There is a reality that we all face as we move around, and you have a very large region, and I know that you have the entire Southeast.

Let me introduce Ms. Fowler. She is the Regional Administrator for Region IV for the U.S. Small Business Administration, responsible for delivering SBA programs in Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee.

We are delighted that she was able to join us here today in Augusta, Georgia, so that we could share, and I think the great thing is she has had an opportunity to hear from many of you who work with her agency as we do, and I think it is very important for us to recognize that we are partners, we are partners in creating jobs, we are partners in sustaining our economy, and the more we work effectively together the better that partnership will become. A tremendous history in banking and development work with the Chamber has had a very, very special focus on minority business development—African-American, Hispanic, Asian-American, and certainly women in business, and we are delighted that she could join us today. So, Ms. Fowler, if you would please share with us your input.

STATEMENT OF NUBY FOWLER, REGION IV, U.S. SMALL BUSINESS ADMINISTRATION

Ms. FOWLER. Thank you. And let me apologize for my tardiness. I am so sorry. And if you are wondering where my accent is from, it is a little more Southern than some of yours. I was born in Colombia, South America.

Mr. BURNS. Not South Carolina.

Ms. FOWLER. Not South Carolina.

Good afternoon, Mr. Chairman, Congressman Burns, and distinguished guests. I would like to thank you for the opportunity to be here to speak on behalf of an organization that truly is at the bottom of my heart, has always been at the bottom of my heart because I have been an advocate for small businesses for a long, long time. I owned a small business myself once. However, it was a lot of work. It is easier to work for someone else and get the pay check every fifteen days. So I know how hard they work, and I know that they need us.

At the SBA we have completed one of our most important years ever. The SBA has continued to drive to simplify and improve the federal government's role in providing capital and technical assistance to America's small business entrepreneurs. The diversity and success of companies supported by the SBA has been a major factor in the current economic recovery. We are proud of that success. At the same time, though, we must keep a watchful eye on the taxpayers' stake in these programs. As much as we have achieved in the past, we have a chance to improve on our record.

As the President has emphasized, we can ease the unnecessary burdens on U.S. companies placed by higher taxes, mediation costs, worker compensation and unemployment issues, skyrocketing health care costs, tax preparation costs, high energy prices. In doing so, we can give our small companies a better chance to grow and create new jobs. What is more, if we can encourage private risk-taking, then we can give entrepreneurs the boost they need to find partners, networks, customers, and access to capital. Encouraging private risk-taking and investments is one of the missions of the SBA.

President Bush understands the vital role that America's small businesses play in creating opportunities. Last March he announced his Small Business Agenda to reduce regulations and taxes, and to expand opportunities for small businesses.

He also recognizes that following times of economic downturn small businesses are the ones that play a leading role in bringing our economy back. They are the ones that generate the majority of the jobs. They actually generate two-thirds of the jobs created in our country. The President's plan for economic growth and job creation, along with the Small Business Agenda, has been successful in creating an environment in which entrepreneurship can flourish.

As you may be aware, SBA is submitting its Fiscal Year 2005 budget request on February 2nd. Actually we did that already. This budget will ensure continuity in SBA's program for America's small businesses, while reducing SBA's cost to the taxpayers by approximately $120 million. Through improved management and program reforms, SBA will better serve America's small businesses by reaching into communities where our programs have had little market penetration. This includes rural areas where SBA district and branch offices are often located several hours away from communities in need.

The most recognizable service SBA provides small businesses is financial assistance. Last year a record number of small businesses turned to the U.S. Small Business Administration for credit assistance, producing a 29 percent increase in the total number of loans that the agency backed in Fiscal Year 2003, including a sharp jump

in the number of loans to women, minorities, and veterans. The overall increase in loan approvals under the SBA's three major loan programs came to 29.8 percent, reflecting an increase from 59,563 loans in Fiscal Year 2002 to 76,465 loans in Fiscal Year 2003.

These loans demonstrate our commitment to meeting the unique financing needs of small businesses everywhere, and the impressive increase we have posted for the past year validates our approach to making smaller loans more readily available to the real job creation engine of our economy. By focusing on smaller average loan size, we are leveraging our resources to assist more small businesses and create more jobs. Based on statements from our borrowers, our financial backing helped the small businesses of America create or retain more than 526,000 jobs during Fiscal Year 2003.

Ironically, our success in promoting these programs actually hurt us earlier this year, as SBA was forced to suspend its operations of our 7(a) loan program for a short time. The unprecedented demand and a series of short-term continuing resolutions caused the program to run out of budget authority under the last continuing resolution. SBA reopened the program as quickly as it could, though we did place some restrictions on the program to keep it running until a more permanent solution can be reached. Let me assure you, Mr. Chairman, that SBA did not, nor does it want to permanently close down this crucial program.

In our Fiscal Year 2005 budget SBA has requested a 30 percent increase for this program to $12.5 billion in lending authority. In addition, SBA is submitting legislation that is a long-term solution for the 7(a) program, and it will have immediate benefits. Our proposal will put approximately $3 billion in additional loans into the economy, and help more small businesses and create more jobs. I urge your support for this proposal.

This legislative proposal will allow the agency to guaranty more loans, create more jobs, and provide stability to the 7(a) program. SBA is listening to its lending partners. They overwhelmingly agree that consistency in the program is the first priority. SBA's proposal builds on the success of the SBAExpress loan program by simplifying the process and reducing the regulatory compliance burden to small businesses and lenders. The government and private sector will be equal partners in program risk, which will potentially lead to a long-term reduction in fees.

SBA has requested $4.5 billion in lending authority through its 504 program with no subsidy cost to the taxpayers. The 504 program which was established to increase small businesses' access to real estate and other long-term fixed financing has always had job creation as a program goal. SBA has taken steps to increase small businesses' access to 504 loans by encouraging competition and strengthening the process. In 2003 this program's total financing accounted for almost $8 billion in projects.

The Small Business Investment Cooperation program also provides much-needed capital to entrepreneurs. With an average investment size of about $600,000, SBICs currently provide over 58 percent of all venture capital financing by actual number—that is

8 percent of all financing dollars—and 64 percent of all seed financing dollars.

SBA is moving forward with the design and implementation of the new Rural Business Investment Company program, in cooperation with the Department of Agriculture, which will expand access to venture capital for non-farm rural businesses. In Fiscal Year 2003 SBICs reported investing $871 million—35 percent of all financing dollars—in 588 different small businesses located in non-metropolitan areas. The program does not have a rural definition. And of those investments, $420 million was invested in 404 small businesses in low-income, non-metropolitan areas, supporting rural communities throughout the country. We expect these levels of investments to remain about the same this fiscal year. All together we think that is real stimulus, going to rural markets and other struggling communities across America.

During the course of SBA's Microloan Program's 12-year history, the private sector lending community has recognized that microborrowers are creditworthy, and that they represent substantial future growth opportunities. As a result, private sector lenders are far more willing to lend to very small and start-up businesses, and are able to offer more competitive interest rates than SBA's Microloan intermediaries. SBA should not be competing with private sector lenders interested in developing this market, and has not requested funds funding for this program in Fiscal Year 2005. The well-established 7(a) program provides an adequate incentive to lenders that feel that risk mitigation is required to make smaller loans. In Fiscal Year 2003 the 7(a) program made over 23,000 loans under $35,000, while the Microloan program only made 2,442 loans in the same period.

The President's Management Agenda requires SBA to continue striving for the most effective and efficient means of serving our nation's small businesses. In doing so, SBA believes it can provide the full range of technical assistance needed by America's small business entrepreneurs more efficiently through our core infrastructure of Women's Business Centers, Veterans' Business Outreach Centers, SCORE chapters, Small Business Development Centers, and our network of field offices. With over 1,500 locations nationwide, SBA and these resource partners are in a position to deliver the technical assistance small businesses require. SBA will continue to make more of its resources available to hard-to-reach communities by moving materials online and stationing permanent SBA employees in rural communities. Examples of these include SBA's establishment of post-of-duty, or what we call now alternative work sites, in rural Maine and two hard-to-reach towns in Alaska. And we are planning that for 70 districts nationwide. Each district approximately will have about two to three alternative work sites, and I am happy to say that Augusta is under consideration because of the demographics and all the elements that are coming into play to make this decision.

We believe we can help more small businesses by utilizing our core programs that have a nationwide infrastructure and can reach more customers more effectively. Some of SBA's technical assistance programs did not receive funding in Fiscal Year 2003, yet SBA continued to provide small businesses with the assistance they

needed. It is often said that access to information is the key to small business success.

SBA will continue the implementation of our transformation efforts. I have spoken with many of you personally about the importance of transformation to SBA's future success. These efforts are crucial to the agency's continued relevance in its second half century.

The administrator has testified that SBA needed to change the way it delivers its services to its customers, America's small businesses. In recent years, SBA's program delivery has changed so dramatically that SBA now works principally through its lending and other program partners to provide products and services to small businesses. SBA is now realigning is resources, including personnel, with this changed business practice using many of the private sector's best practices. Through transformation, SBA is shifting field office efforts from administrative functions to more direct relationships with customers and resource partners. SBA's field offices are using outreach, marketing, and customer and resource partner relationship management to ensure that they know and meet small business's needs.

All of us at SBA are quite proud of the agency's legacy of achievement. Many businesses with household names today received SBA assistance in their formative stages. Who knows which of tomorrow's industry leaders are today receiving their 7(a) loans, or their government contracting opportunities, or their counseling through SBA's programs and services.

However, we at SBA cannot rest on our laurels. The agency must continue to keep up with, and ahead of changes in the marketplace.

We are committed to doing all we can to make sure these entrepreneurs receive all the assistance the agency and its employees can provide. But SBA cannot do this alone. We will continue to work together with you, our Congressional partners, and all of our resource partners to ensure that SBA continues to assist small businesses into its next half century.

Thank you very, very much for the opportunity to testify here today, and I would be happy to answer any questions provided I have the answers. If I do not have the answers, I will get back to you.

[Ms. Fowler's statement may be found in the appendix.}

Chairman SCHROCK. Thank you very much, Ms. Fowler. And than you all for testifying. It was fascinating to hear where you all were coming from and the differing ways things are perceived from the organizations you work with.

Is Tom Gaines here by any chance? Did he come in? We did not know if he had slipped in and we did not see him.

I am going to focus on—one question has to do with SBA, and one is what people like Ed Schrock and Max Burns can do to help.

What experience have you had with the SBA? Do you think they are being responsive to the people you represent, and are they helping them in trying to do away with some of the unnecessary regulations and burdensome paperwork that they have to do? I would be curious to know. We have a very good relationship with Tom Sullivan in Washington, we work very closely with him, and I think we need to get out in the field and ask that same question

to make sure they are doing everything they can, because that is their intent I can assure you. I would be curious to get your spin on that, and maybe Ms. Fowler can respond to some of that if it needs responding to.

Mr. GRIFFIN. Right now, Congressman, the SBA is going through a centralization in their underwriting processes. Where right now they process loans in each state location, their 76 district offices, they are consolidating. Our loan processing for example, we go to Sacramento, California in the next twelve months, but at the rate they are doing that and the way they are doing it, it should speed the process up with some of the centralized forms that you are using. But like any agency, SBA is doing some things good, and they are doing some things not so good.

And in terms of the burden of the paperwork, I have been at this sixteen years now, and I would venture to say that the paperwork process has grown by about 20 percent.

What they do, typically what happens with SBA is the paperwork really is not the responsibility of the borrower, it ends up being the responsibility of the lender, or the community partner that they are working with.

There is a need to form some kind of task force to streamline these loan processes. I think they have focused on it on the 7(a) side, and have done a terrific job. Some of their other programs, they are in the process of doing that right now. So they are doing a lot of good things. But for the program I work in, 504 it could be better than it is now.

Chairman SCHROCK. Ms. Fowler, before you came in, Randy Griffin brought his son Seth's wheelbarrow in with a bunch of paperwork here, these are loan applications from two different loans, and when you look at that some poor business trying to start a business—I would give up after the first three or four pages, and I think that is the problem, we have got to narrow that down. In the 7(a) program for instance, what is it, one sheet?

Mr. GRIFFIN. Well, 7(a) has gone to a Low-Doc, the Low-Doc application. That is one of the things they are looking to do on the 504 program that I think is very progressive. It is something that is proposed right now in the administration's plans, so it is something we need to move forward with for sure.

Chairman SCHROCK. Ms. Fowler.

Ms. FOWLER. Let me address that. Thank you. I am a banker, and I am used to seeing those files on credenzas all over the office.

The Low-Doc, it is a terrific program. However, we now have the SBAExpress. I do not know if your bank does the SBAExpress.

Mr. GRIFFIN. Well, we are the SBDC, so we do 504 loans, so what they are doing———.

Ms. FOWLER. Well, let me go back to the 504, because you are right, that has quite a bit of forms, but remember there is an awful lot of information that needs to be gathered. It is not the same to lend $35,000 with one sheet of paper versus a million dollars for a real estate transaction. So there is going to be more paperwork with a 504 loan. However, having said that, I am sure that we could streamline it so that you do not have to carry two of those folders with you.

Let me address the 7(a)—there are other bankers here—the Express program. The banks are supposed to use their own forms, their own processes, and their own closing systems to provide these loans. And we have quite a few major banks that are doing that. As a matter of fact, Bank of America became number one last year in SBAExpress precisely because they like that. So we have streamlined the Express program.

Furthermore, because there are many community banks in rural areas, the non-metropolitan areas have smaller banks they are not used to this incredible amount of information, also they do not have the technical expertise, nor can they afford it, so SBAExpress could help them because they can use their own forms, processes, and closing.

The one thing that they were not able to do at one point was join that program because they did not meet the criteria. Truly it was a little too high. So we are working on eliminating certain parameters so that these smaller community banks can participate in Express lending.

Chairman SCHROCK. I think you will have to admit if you look at those two packets of stuff there that is just overwhelming. Somebody trying to start a new business is under enough stress as it is, without having to go through that.

Ms. FOWLER. Sure.

Mr. BURNS. If the Chairman will yield for a moment, Ms. Fowler, does the SBAExpress, would it cover both Section 7(a) and 504?

Ms. FOWLER. No. Right now it is just the 7(a).

Mr. BURNS. Just the 7(a).

Ms. FOWLER. Yes.

Mr. BURNS. Are there plans to potentially address the 504 challenge like you may have addressed the 7(a)?

Ms. FOWLER. Yes, there is. Just between us, yes, there is. We are doing that.

Chairman SCHROCK. What is the time line on that?

Mr. GRIFFIN. The bill, 2802, Mr. Chairman, stipulates that within twelve months that the SBA will establish a Low-Doc program for the 504 program.

Chairman SCHROCK. It would certainly help you.

Mr. GRIFFIN. It certainly would help.

Chairman SCHROCK. Anyone else? Mr. Burns.

Mr. BURNS. Thank you, Mr. Chairman. I want to touch base on two or three things, and then maybe have several of you give me your input on those issues.

The first thing let us talk a bit about is in the area of entrepreneurship, and incubators, and training. I have heard from Dr. Elam and Mr. Wilbanks about the fact that perhaps we are not focusing enough in our educational environment at both the secondary level and at the tertiary level in making young people aware of opportunities associated with owning their own business and starting their own business.

What efforts do you see in our region that might help us alleviate the problem of awareness and opportunity. Dr. Elam.

Mr. ELAM. Junior Achievement locally has taken a major step forward in helping young people, especially in high school, with entrepreneurship, and really a refocused effort.

I think that a lot of what we do we could do it jointly with the high school programs while the student is still in high school. I think it is something you have to ingrain into young people, and you can do it in educational context about a lot of activities on campus, by having material that just promotes the idea of business ownership.

I mean we learned it home from our parents because they gave us an allowance. I mean the first entrepreneurship that I ever dealt with was simple. You got 25 cents this week, and you had to manage that money so you would have some Saturday.

Randy is looking at me like "How old are you?"

Chairman SCHROCK. Randy is young enough when he was going to get an allowance they gave him a car.

Mr. ELAM. Right.

[Laughter.]

Mr. ELAM. So young people are not having to manage because of the excess that we have in many of our communities. Paper routes are adult functions now.

Chairman SCHROCK. They sure are.

Mr. ELAM. I mean so many of the things that we learned to do—working at a service station, all those things are gone, and because of technology it has to be taught. This is something that we used to get informally through relatives and through other folks who had businesses.

So we have to have that instruction incorporated into high school, but I think even at the post-secondary level, because just because you are a great physician does not make you a great businessperson. Just because you are a great electrician surely does not mean you know how to run a business, and you can lose two or three businesses and all of your credit in the process of trying to do that. So I think it is important that we take—we have made a commitment, and we would like to see some of the small businesses locally who apply for loans be mandated that you have to take certain courses to prove that you are really serious about this. You know, if there was a course that you had to take through whatever organization before you could get that final approval I think people would do that. You know, colleges have had to do that with student loans because of abuse.

We would not be against that kind of challenge of having to provide that type of training for businesses who are looking to—and that is a regulation, but that is one that I think could add value and cut down on failure.

Mr. BURNS. Mr. Wilbanks.

Mr. WILBANKS. I would suggest that young entrepreneurship programs become not optional for schools to provide, but be part of the regular curriculum just like math, or science, or any other course.

We see that this is where the jobs are coming from, it is where the innovative ideas are coming from. It has to start, and so many of our school systems see these other optional programs coming to them as more work, or they get lost in the shuffle, but if we make entrepreneurship in our school systems talking at the post-secondary and secondary levels, high schools across the board, part of the curriculum, part of the process, that this is something new that has got to be incorporated, and our educators have got to under-

stand is important that there are opportunities for people to create businesses, not just work for big factories, and that is going to be more and more in the future.

The REAL program, the Rural Entrepreneurship Action Learning, has a very well-structured improvement program that works especially, and seeks out programs in rural areas, and the National Foundation for Teaching Entrepreneurship has the resources available, and I think there should be collaboration with the educational system and these groups to develop some type of curriculum and structure to start it in elementary school and grow it throughout high school, and then people will have the option when they graduate.

Mr. BURNS. Anyone else?

Mr. LOGAN. Just reflecting on what you mentioned about youngsters and how we could approach this and encourage entrepreneurship, if we probably polled everybody in this room statistics would say that probably five out of six of us would say we had our first job at a small business.

I found it interesting of the eight original Democratic candidates for President, seven of them had stated that they had their first job in a small business. Now, whether that is true or not I do not know, but it sure is politically correct to say you started out in a small business.

But it would occur to me that there has been a lot of mixed reviews on entrepreneur curriculum in high schools and others. It certainly should be offered as an elective. It would seem to me if we encouraged small businesses, there was some type of incentive for them to hire younger employees, to hire student workers, I think a lot of policy decisions made over the last ten or fifteen years has gone contrary to encouraging them to hire younger employees, and I think that is where they will really get the OJT and the mentoring to want to become an entrepreneur and own a business.

Mr. BURNS. Do the regulations inhibit these young people's involvement?

Mr. LOGAN. I think some of the rulings on minimum wage, some of the things about maybe school participation and all—not the federal regulations totally—that limited their ability to work in any business, plus the fact the emphasis on larger businesses in rural communities, the Wal-Marts of the world and other, I do not think they are as inclined to hire younger workers as the smaller ones.

Mr. BURNS. Thank you. Ms. Fowler

Ms. FOWLER. I just wanted to make an observation. When I was coming in I think I heard the issue that MBAs are not starting small businesses. There is a phenomenon in metro Atlanta, and that is the African-Americans consider Atlanta sort of a mecca for entrepreneurship, and a lot of the people that came to see me at the bank or at the Chamber were African-Americans looking for ways to start a business. They had an idea, and the reasoning behind that was that they have such a tough time in corporate America they were not going to waste their time there, they were going to start their own businesses. And I think that has continued, because our African-American loans just in Georgia increased by 78 percent.

Mr. BURNS. Do you see that among the Hispanic community as well?

Ms. FOWLER. Regretfully, no. In our Hispanic community—May I address that issue at this point?

Mr. BURNS. Please.

Ms. FOWLER. In our Hispanic community we do have people that have been mainstreamed, like myself—I have lived here 42 years, and our children are Americans—but then the most visible ones are the ones that are out either working on construction, or landscaping, and the mind-set is that most of them, or most of us are non-monolithic, and we are not. There are many that are coming from other countries, but they do not have the language, so that precludes them from doing anything other than work for someone else in a menial job.

But there is a lot of entrepreneurship in the middle class of many South Americans that are coming in, but that is minimum, that the majority are the ones that are uneducated that do stay here and do not become mainstreamed because their mind-set is that they are going to go back home, which they never do, so———.

Mr. BURNS. And just following up on that, how would you evaluate the female-owned businesses, the women-owned businesses, as far as their opportunities and growth, are you seeing positive responses in that environment?

Ms. FOWLER. Unbelievable. Our statistics say that women are starting businesses at a higher record number than men. Furthermore, they stay in business longer.

Mr. BURNS. So they are surviving?

Ms. FOWLER. Yes, they are.

Mr. BURNS. Anything you might attribute that observation to?

Ms. FOWLER. Well, I have met a lot of women through conferences, and being a woman myself. I do believe they have certain values, certain core values, and certain skills that they try to develop to make sure that they succeed, and they are very good planners, organizers. They do not do things by the seat of the pants, they are very thoughtful, and they are hard-working individuals, I am sorry to say.

Chairman SCHROCK. Are these single women, single mothers?

Ms. FOWLER. They are all across the board, all types. I mean I have met retired women that have started a business, something at home like a famous recipe of theirs that everybody says they ought to bottle it like Newman, and they go ahead and do it.

Mr. BURNS. To come back to a couple of comments made by Mr. Logan, in your testimony you pointed out that there are hotbeds of entrepreneurship, and you identified Atlanta, and interestingly Savannah and Albany. Why would you classify those as hotbeds? Anything that we could say that would create a hotbed in Augusta, or Athens, or Columbus, or Macon, or other regions? Talk about hotbeds.

Mr. LOGAN. Well, the Atlanta area is no mystery to anybody, it is a good place to do business, a lot of business support activities, lending institutions, all kinds of export assistance, everything is located around a fifty-mile radius of Atlanta. There is no question why that is.

Albany, I am somewhat surprised at that, and they really gave no reason. But I would have to say it is probably leadership. Albany has had a tough time over the past I guess ten or twelve years. Plants have closed, they have had to work real hard, and it is almost like—I saw one time about businesses. Businesses that tend to survive for long, long term are not the ones that hit a level and do real good for a long time, but they are the ones that do real good, and they will have a crisis, and they will have to respond, and then they will do real good. So those are the businesses that will really survive and prosper.

I think maybe Albany is the same way. They have had to develop a leadership, they have had to be innovative, they have had to just to call on all their resources, and I think that probably more than anything is the leadership is what is the reason.

But there are certain characteristics in communities I think that make them attractive to entrepreneurs. Now, I heard Dr. Eric Paiges who is a relatively renown entrepreneur consultant say that in Georgia—I asked him, I said "What do you consider rural Georgia?", and he said everything outside of Atlanta.

And I think what Eric was trying to tell us there is there is a lot of common elements, whether it be Augusta, Savannah, Macon, and Albany, and from my observation there is not a lot of difference between the larger communities in Georgia. I wish I could answer that, but I do not know exactly what all he has done. They are making some inroads in correcting their economic problems.

Mr. BURNS. Any other panel members that might talk about a hotbed? Mr. Presnell.

Mr. PRESNELL. Thank you. As I listen to my colleagues I hear—I am reminded of several things, so I will have to put a commercial in for Augusta if I may—but we have several business districts that are what I would classify as hotbeds for opportunity for small business growth. We are in the middle of one, the downtown central business district which goes from the river up through the Lane Walker Business District. The Lane Walker Business District is perfectly ripe for gentrification, and renaissance in business in the African-American community, and we are real excited about the opportunities there.

If you go just a block down to Broad Street you will see small business renaissance of giant proportions up and down Broad Street.

And then in our South Augusta community we have a tremendous opportunity because of the—number one, because of the presence of Fort Gordon which is an attraction to that area, and we also have a lot of gateways in South Augusta, and it serves as a conduit between Burke County and Jefferson County and so forth to get into the Augusta community, and you have got just a vast area of opportunity for small business expansion and growth right here.

I was pleased to hear Mr. Elam refer to the Junior Achievement program. That program is alive, well, and kicking in Augusta, and they do a fine job, and I would also tell you that Mr. Elam does a fabulous job in making his campus available to programs such as the Contractors College which he has referred to in his comments that is a joint effort between the Augusta Metro Chamber of Com-

merce and Turner Construction Company using Augusta Tech facilities. We are in our second session of that now, and I guess we will have probably another 25 or 30 business entrepreneurs that are going through a very intense session of training if you will for small business development. That could be expanded instantly if there were enough awareness there. It has been very successful, and the community at large is serving as the faculty, the business community is actually mentoring through professional service sharing to the students, a novel opportunity to enhance small businesses.

Mr. BURNS. Thank you. Mr. Wilbanks.

Mr. WILBANKS. Yes. I would like to comment now that I think as far as hotbeds, hotbeds could be formed by working with especially rural communities and helping them understand that there is more to economic development besides just industrial recruitment, waiting for that industry to come to town, we so easily overlook our local entrepreneurs and successes in our communities, and forget that they started out as entrepreneurs.

And having support structure and understanding how to help and support entrepreneurs in our rural communities is something that our ENet Program is now working with the Georgia Department of Economic Development—used to be Industry and Trade—to educate our rural communities, and any community across the state in what infrastructure and support structures they need to encourage entrepreneur development in these communities.

If you look at communities that have done well, those economic development folks, those chambers and development authorities understand the importance of entrepreneurs in their community, and have recognized that, and are working towards that, and they have a dual strategy for economic development, not just recruiting industry, but also trying to grow their own.

Chairman SCHROCK. Yes, Mr. Wilbanks, and your testimony is something that really hit me when I was on the plane last night. Jenkins Comfort Systems, you said they were creating, they did something with a thermal cooling vest system which protects users from dehydration, hypothermia, and temperature-related stress. It is that kind of thing I would think our men and women in Afghanistan and Iraq could use. Are you marketing that to the folks in Washington, or how do you go about doing that?

Mr. WILBANKS. We connected this entrepreneur to another company that is in Vidalia, Georgia, Savannah Luggage Works, that is making all of the vests for our soldiers in Iraq, and he has a new design that he is meeting with them this week concerning an insulated barrier underneath the vest that could help cool them, or warm them, and we will be supporting them in any way we can to make sure that that collaboration occurs.

Chairman SCHROCK. It is wonderful to read this if they are doing this if nobody is picking up on it, but obviously they are.

Mr. Presnell, you say you have all these hot areas in this area, but are you going outside the area trying to bring people in, I mean around the state and around the country, or are you just depending on local people to do that?

Mr. PRESNELL. Oh, yes, sir, we are constantly recruiting. As a matter of fact, during—we are building up now to the Master's Golf

Tournament week here, and we will have companies from all over the country come in here that will recruit for small businesses as well as retail, life sciences, and on up into the industrial side with their service, so we have a good cross-section.

Our real estate, our commercial real estate developers are constantly recruiting folks.

We have an agency in downtown Augusta, the Main Street Augusta Group, that works very hard at recruiting business activities to their area, to that area, to that business district.

And so you have got a combined effort of external and internal forces, but it is all driven from the inside out. You know, we have to let the people across the country and the world know that we are here.

Chairman SCHROCK. And your new airport facility is not going to hurt.

Mr. PRESNELL. Oh, no.

Mr. BURNS. I brought the Chairman in through the airport last night about eleven o'clock, and we pointed out, Chairman Johnson, that this was a project that we are focusing on in this community to provide that economic stimulus that we think is really going to help.

If I might ask one more question——

Chairman SCHROCK. Please.

Mr. BURNS [CONTINUING] And maybe Mr. Logan and Ms. Fowler can make sure we are straight on this, and probably also Mr. Griffin.

In your testimony, Ms. Fowler, you pointed out that if we expand the SBA's efforts that we could create 500,000 new jobs based on 22,000 additional loans.

Now, that would suggest—is that based on the support of HR 2802? You know, my real question is the estimated impact of these changes would be 500,000 jobs. I am all for 500,000 jobs, and I just want to make sure I am clear about how is the best way to achieve that objective.

Ms. FOWLER. Create or retain? 526,000?

Mr. BURNS. I am referring to Mr. Logan's testimony.

Chairman SCHROCK. The testimony says 500,000 new jobs.

Mr. BURNS. The estimated impact of these proposed changes is 22,000 additional loans, and 500,000 new jobs, and I think that is for Fiscal Year 2005.

Mr. LOGAN. And that information, Congressman Burns, came from the SBA's fact sheet that they put out about their budget—let me see if I have it———.

Mr. BURNS. Okay. So again it does quote SBAExpress, it does create, it does suggest that we need to expand the SBA 7(a) loan program, add 3 billion to the program, create a cap of 2 million, and again that is what I want to do is I want to generate some synergy here, and I think that goes back to Mr. Griffin's point that says, and I believe that most of this would suggest that HR 2802 is the linchpin legislation.

Mr. GRIFFIN. Well, I would say, Congressman, HR 2802 is sort of an immediate impact to SBA's Number Two loan program which is a 504.

Mr. BURNS. The 504.

Mr. GRIFFIN. To give you an example, in the state of Georgia last year there probably about 200 504 loans done, maybe 250, and probably about 1,200 to 1,500 7(a) loans done in the state of Georgia.

Mr. LOGAN. The SBA released data February the 10th, said by expanding the SBAExpress loan program which allows lenders to apply for 7(a) loans using their own forms and processing instead of the lengthy and burdensome government forms, the entire 7(a) program would move to a lower guaranty rate of 50 percent. This reform would allow the agency to increase lending authority by over 30 percent. Based on Fiscal Year 2003 numbers, that increase could have resulted in more than 22,000 additional loans to American entrepreneurs. If enacted for Fiscal Year 2004, the lower guaranty rate and increased number of loans could provide capital to create as many as 500,000 new jobs.

Mr. BURNS. But we have a discrepancy about this 50 percent loan rate guaranty. Is that a fair statement, Ms. Fowler?

Ms. FOWLER. Yes. The SBA is proposing this to equalize the partnership between the private sector and the SBA, or the taxpayer actually. And I think that is a bone of contention for that.

Mr. BURNS. I believe the current level is at 75 percent?

Ms. FOWLER. 75 percent.

Mr. GRIFFIN. The problem, Congressman Burns and Chairman Schrock, is the OMB subsidy calculation on the 7(a) program is greatly, greatly flawed. They are saying that the subsidy rate on the 7(a) program currently through OMB is 1.06. In a nutshell, that means it costs $1.06 for every $100 in loans that the government guaranties through SBA 7(a).

The problem is when you look back those programs have returned collected fees from banks and from small businesses in the amount of $1.2 billion over the last twelve years. So there is clearly a flaw in the subsidy model.

Until the subsidy model is corrected through OMB, through the budget process, I do not see how the administration in this proposal knows what the 7(a) program cots.

Mr. BURNS. Mr. Chairman, does the CBO make estimates as well? I need to ask a question.

Chairman SCHROCK. No.

Mr. BURNS. No?

Mr. GRIFFIN. Common sense, though, Congressman Burns, if I have a program that has returned 1.2 billion—and that is not budget, that is cash—that is collected cash from small businesses, and it is an unfair tax on small businesses. It is intentionally overstating the cost of the programs. It is not SBA's problem other than their connection to OMB, but it is clearly overstated. The facts are 1.2 billion, they have not disputed that. It is an unfair tax on small businesses. They are overcharging their guaranty fees on these loans, and now the proposal is that they are going to zero out the subsidy rate by collecting more fees. Why do you need to collect more fees when you have already returned 1.2 billion to the Treasury?

Ms. FOWLER. My understanding is to the contrary, that it will reduce the fees. We do not want to increase the fees because the small businesses pay for it, and that would be a tax on them.

The issue actually is that banks are definitely doing the lending, and they do it at a 75 percent guaranty. The banks are not hurting. If they went to a 50 percent guaranty, they would still do the loans. Whether they do it or they do not—if they do not do it, they do not get anything, but if they do it on a 50 percent guaranty they will sill make those loans.

Now let me just express that I had a lenders' round table in Columbia, South Carolina, Wednesday. I did need to have that input before I went to Washington to be prepared for this meeting, and the feedback I got from them of course they are all against the 50 percent guaranty. They say they will not make the smaller loans, they will not take start-ups, they will not do that.

And these banker were the presidents of the bank, it was not the lender itself. I met with the presidents of the banks; that is what I needed to hear from. And Bank of America came out and said "You know, we are making these loans, and this Community Express is the answer" because you use your own paper—and I know he is a 504, so there is a difference here—but the fee increase would hurt the small businesses if we go that route versus the 50 percent guaranty.

Mr. LOGAN. Let me just make a comment also about that. You know, the reality in our state, and probably lots of others, there is no such thing as a business start-up loan. There is no loan, no business assets, there are no working capital loans. The 7(a) loan program is very important. Particularly if you go to rural areas in Georgia we have small banks, they are mostly very limited asset base, they are not prone to make any kind of unordinary or inordinary risk.

Mr. BURNS. Do they make ag loans?

Mr. LOGAN. They make ag loans on ag businesses.

Chairman SCHROCK. That is a pretty tough risk.

Mr. LOGAN. It is, but those are mostly character-type loans I would think.

Mr. BURNS. True.

Mr. LOGAN. But on the small loans as Nuby just said, if you reduce that to 50 percent it is going to have an incredible effect on the smaller communities, because those are the ones that really depend on the guaranties.

Mr. WILBANKS. Let me make one suggestion in that we are talking about the smaller loans as Hank just mentioned, and what if we had a 75 percent guaranty on loans up to a quarter of a million dollars, and any loans above that a 50 percent. That would be a compromise, but what that would allow is—and I pointed out the statistics on start-ups that had 20 or less than 20 employees. Most likely those businesses could have been started up with less than a quarter of a million dollars, so they would achieve the benefit of the higher guaranty rate, and we know that is where more of the job creation and businesses are coming from.

The loans over 250,000—and, Randy, you guys may add to this—I think when you get to that level there are more partners that can be reached for, whether it be investors, more banks, venture capitalists, development authorities come into play and can help support it, state programs such as One Georgia or EIP. So once they

get over 250,000 they are other partners that could come in and share, and maybe 50 percent is more practical, but for those under 250,000 it is going to be tough for those banks to feel comfortable doing a 50 percent guaranty.

Chairman SCHROCK. Could you live with something like that, and would the bankers agree?

Mr. GRIFFIN. Well, right now the guaranty for a loan under 150,000 is 85 percent.

Mr. BURNS. Under 150. Would that change under this new proposal?

Mr. GRIFFIN. Yes. And so I definitely agree, and I think that is what we have heard from banks that we have been in meetings with, and from the rural bankers, and from our board members is that they are hoping that the compromise is exactly something similar to what he pointed out that on the smaller loans that a higher guaranty will be in place.

Chairman SCHROCK. Would the bankers agree?

Ms. FOWLER. Mr. Wilbanks, I wanted to address it. Will you forward that information to me? I am going to give you my card. I am gathering information to send to our congressional legislative affairs office in Washington, they wanted me to do that, and so if you give me that information I will forward that to them.

Mr. WILBANKS. And I am not sure where the line is drawn. There probably needs to be some research done on the number of loans and the loan amounts. But if there has to be some reduction in the guaranty, what would ultimately result in the most job creation is if we could keep it where we are and reduce the fees at the same time.

Ms. FOWLER. Well, if you send that to me, I will forward it, because the legislative proposal is going to be worked on.

Chairman SCHROCK. I would like very much to have that as well.

Ms. FOWLER. You would like to have that?

Chairman SCHROCK. Yes, if you can——

Mr. BURNS. Chairman Schrock is on the committee——

Chairman SCHROCK [CONTINUING] Yeah. I would love to have that.

Mr. BURNS [CONTINUING] And he is in a position to review the legislation that is submitted, and then if necessary make amendments, changes to reconcile that, if possible.

Chairman SCHROCK. Let me change horses in the stream here. There are some folks sitting in the audience, and we would like to give you all the opportunity to make comments or ask questions, hopefully as it relates—I know when two congressmen open a microphone up to people we leave ourselves wide open for a lot of questions. We did that this morning, and it was quite interesting, but I wonder if you had any comments as it related to this particular small business regulation. If you do, please feel fee to stand up to the microphone and identify yourself, who you are with, and ask the question.

We have got them all intimidated.

Mr. BURNS. We welcome your input.

STATEMENT OF HELEN BLOCKER-ADAMS, HBA GROUP

Ms. BLOCKER-ADAMS. Congressman Burns, this is really—I am Helen Blocker-Adams with the HBA Group, an entrepreneurial firm here in Augusta, 13 years old. And, by the way, Congressman Burns spoke at that regional minority conference that Patrick mentioned in his remarks.

Hotbeds, the latest issue of "Fortune Small Business," the February magazine, that addresses that hotbeds question that you asked about, and the different characteristics, and it did say that Atlanta is number one.

Some of the comments they made of what helped it become the number one hotbed, access to resources dealing with small business and entrepreneurship, leadership, mentors, the availability and access to mentors for small business owners, and networking activities. Those were four that I can remember from the article that I thought might be helpful for you, and it is an excellent article, but it is the February issue of "Fortune Small Business."

Chairman SCHROCK. Let me ask you a question. This hotbed thing is kind of interesting.

In the state I represent, Virginia, there are a lot of hotbed things in northern Virginia. Everybody thinks if it does not go to Fairfax County in northern Virginia it is not worth anything. But, frankly, where I live Virginia Beach is a far better quality of life, and I think should draw people there.

I think, frankly, living in Augusta is better than living in Atlanta——

Mr. BURNS. Amen.

Chairman SCHROCK [CONTINUING] From what I have seen. What is the disconnect? Why cannot we get people to understand that and move to Augusta, and move to Virginia Beach.

Ms. BLOCKER-ADAMS. I do not know, but we are working real hard to make that happen, and I think I heard somebody say they can answer that behind me, who is also an entrepreneur.

Chairman SCHROCK. Everybody up here grabbed their microphones, so they have all got answers too, I think.

Ms. BLOCKER-ADAMS. I am going to let this gentleman come up and make a response to that if you do not mind.

Chairman SCHROCK. Sure.

STATEMENT OF JESSE HUGHES, ACCOUNTANT

Mr. HUGHES. My name is Jesse Hughes, I am an accountant here locally. I can address that. I moved to Georgia fifteen years ago. I am originally from upstate Buffalo, New York, and when I go back to Buffalo and tell them I am living and working in Georgia, quite naturally they assume I live and work in Atlanta.

The reason I look at for not being in Atlanta it is a lot more competition than necessary. A lot of people feel that Atlanta is a hotbed because more entrepreneurs are starting there, preferably African-Americans. There are a lot of opportunities to work and grow. You have got African-Americans in the legislature, you have got an African-American in the governor—not the governor's, but the mayor's mansion, so that allows everyone to look at Atlanta as being more expedient than Augusta is, looking at Augusta being a lot more slower. But opportunity in Augusta is plentiful.

I want to touch bases on Mr. Elam, and I forgot which gentleman from the Small Business Development Center. Education is probably the most important thing, and I am going to stress that because I probably have about 1,500 clients, I deal with a lot of entrepreneurs. I mentioned the Small Business Development Center because there is someone over here named Heather Woods that I was speaking with tremendously last week, and I am mentioning the Small Business Development because I am a speaker for the Internal Revenue that actually puts on the seminars for small business development.

I put on a seminar in Rome, Georgia, and Atlanta, Georgia, and supposedly in Augusta that did not work out this week, but we are looking to reschedule. In talking to the people, their biggest problem is education. You go back to it, they are excellent electricians, they are excellent carpenters as long as you put a hammer and a nail and wood in front of them, but when you give them dollars that becomes a problem, and they cannot succeed, they cannot go forward because all they have to offer to their business is their expertise in that area. Education is a hotbed.

You go back talking about teaching them in the early classes. My two children, I have got an 11-year-old and a 12-year-old, they work in my office. They have got three years experience, and they have probably got a lot more knowledge than a lot of individuals in business today, so that is a stickler with me because again we are looking to open up an entrepreneur school for children, and that is where we are going to start with the children and work our way up.

I put on a lot of seminars for ongoing businesses, and I keep stressing the same thing, the biggest problem is education. We sit here talking about giving them SBA loans and the various things. What good is it if you do not educate them on what to do with the money, and then you complain when we get it and go buy a Cadillac. But no one told us what to do with the money. We borrowed the money, we put some of it in our business, and we use it for other things that we have not been educated on.

You know, I am where I am today because of my education. I have been in business 15 years. I have got a two-year degree, and I can guarantee anyone in here would never know that I had a two-year degree. I am an Enrolled Agent with the Internal Revenue, I am an Accredited Business Accountant. I went off and got my education.

My business is thriving under radar, a lot of people is not aware of that, because I took the stuff to get the education. I wanted to become a leader first instead of a boss. I learned to learn and deal with people, I learned how to market my business. I went and got experience telemarketing because as a businessman I am going to be on the phone constantly. But those are information that I spread to entrepreneurs.

And I differ a little bit with Mr. Elam as far as putting it in schools, because I feel a lot of our entrepreneurs need to be taught by entrepreneurs, because I learned a lot in school, but in my fifteen years in business nothing in school that I learned that is being used in my business today, none of it. The school teach you academics, but it is a lot more behind that, and we want to be able

to—I have got nothing against education, I push that because I use the word knowledge, because education is not for everybody, and we have to understand that. Everybody cannot go to school and sit around and listen to a teacher, so you have go to get your knowledge, be it in a seminar or whatever it takes in order to be able to get that.

Chairman SCHROCK. I hope you do not mean K through 12, I hope you agree you have to have that.

Mr. HUGHES. Oh, yes. What I am stating is, you know, we push education. Everybody is not education oriented, everybody cannot learn through the education system.

Mr. BURNS. There are different options for all of us to achieve a degree of skills and expertise. It could be in a professional school, it could be in an apprenticeship program, it could be in a formal college or university environment, it could be any number of things.

I want to just respond. We had lunch with Calvin Greene in Hot Foods by Calvin. Let me tell you what, that is an amazing success story where we have an individual who lost his job, and three weeks later started a business, and has not looked back, now employs 25 people, provides his employees with health care, and with 401(k)s and IRAs, and you know the interesting thing is he has been extremely successful in his quest for a small business, his business, and he can take just as you said—and we talked about this at lunch today—he can take others and basically mentor them and show them how to be successful, maybe not—they should not necessarily adopt his dream, but they should identify their dream. But many of the skills he has learned are transferrable, and I think you are correct. Mr. Elam and I discussed this, and I have discussed it with other folks, you know here are opportunities—you are an example—who can go and help others understand how to be successful, and like you say the pitfalls, the challenges.

Chairman SCHROCK. It was worth coming here today just to meet Calvin. When they said we were going to go to Hot Food by Calvin, all right. When I saw his picture on the billboard 20 feet high, huh, this guy has really made it and, boy, when you meet him he is upbeat, he knows what he is doing. That is the kind of guy you need to get out in the community talking to people and teaching them how to do it. I do not believe in cloning, but if I did I would want to clone Calvin to go everywhere. He is the role model for business in America, he really is.

Did you want to comment, Dr. Elam?

Mr. ELAM. And I agree education is far more than classroom.

Chairman SCHROCK. It is.

Mr. ELAM. And I would just like to give a personal note. Augusta probably has the largest percentage of African-American electrical contractors of any city that I know. There is probably 15 businesses in this community that are owned by African-Americans who are electricians. And the reason I can say that, because in 1955 there were none, there was not one master electrician in this community. My uncle was the first. He trained another uncle who trained 15 who now run businesses. That is entrepreneurship at its best.

Education plays a role, but also working with people who are successful is just as great a role. I mean going to school is fine, but you have to have success.

I started my first business when I was fifteen years old, I made $30 for working six hours. You do the math, that was a lot of years ago. I was fifteen years old, 1965. I thought I was rich. I then became an electrician.

Chairman SCHROCK. And then you got rich.

[Laughter.]

Mr. ELAM. And then I decided I did not like crawling under houses.

[Laughter.]

Mr. ELAM. The point I am making is that one person can plant that seed that can impact a tremendous number of people in one area. I saw that, I have seen it my whole life.

We do not know the area, we do not know what the niche is going to be. It could be a Calvin developing six more Calvins. As a matter of fact, if you go back and look at it, Calvin comes from another restaurant that has produced several restaurants in this community. That is entrepreneurship at its best. Entrepreneurship at its best is seeing an auto dealer like the Hodges Group that came out of another dealership in Charleston and came here, and now there are four or five dealerships under that umbrella.

So we have great examples of great entrepreneurship. When you marry academic training with hands-on experience your success level is increased. You do it the opposite; you cannot do it all in the classroom, and you cannot do it all just practically.

Chairman SCHROCK. The classroom is great, but there is nothing like OJT, on-the-job training, it has got to be there.

Mr. ELAM. And you have to incorporate OJT into practical training. That is why we are a technical college, that is why we are not the university.

Mr. BURNS. Just a comment. When I was visiting Augusta a year and a half or two years ago, one of the things we were looking at was what is the one thing that we can do in this community to improve the opportunities for job growth and development, especially in the biotech community we have not really addressed biotech that is such a major portion of our community and our economy here in the CSRA, the comment was improved air service. And because of the access issue, the issue of being able to get the right folks in and out of this community to participate in high-tech industry, to participate in that development, and I want to commend the Augusta Airport Commission for their efforts in improving air service, but I also want to commend them for their efforts in ensuring minority business participation in the development of that entity.

We are going to invest some number of millions of dollars over the next several years, and it is extremely important that as those dollars are spent that they stay in this community, that they stay with small businesses here, that they stay with minority businesses here, and they circulate in our community, and they create a stimulus for the future master electricians, and the future master carpenters, and plumbers, and brick masons, and general contractors, and whatever the opportunities may be, but the point is we

utilize that as a mechanism for stimulating the local small business growth.

Chairman SCHROCK. Let me ask one final question to all of you, and then I will let Congressman Burns wrap up.

When your congressman and I go back to Washington, what can we do, what do you think is the best thing we can do to help the business climate for small businesses getting off their backs? Is it regulation, or what is it? What do you think we need to do to get this thing turned around so that small businesses can not only be established, but can flourish and grow and not have to worry about all kinds of burdensome government regulations?

He and I cannot do anything about the state level or the local level, but we certainly can at the federal level, and I have a feeling that may be the biggest problem, and if it is we need to know that.

Mr. ELAM. In the educational area from the side of the retraining of workers, making sure that those programs are able to focus on those kinds of activities that will allow those people to take advantage of these opportunities, and I say that to make sure that there are no restrictions out there for free-flowing ideas of entrepreneurship for someone who wants to participate in a retraining program because they have lost their job. It does not do any good to retrain someone in an area that the job is not coming back.

I mean if you are in the textile business all those associated jobs are going to leave, the problem is to create that new economy in the community, so making sure that there are no artificial barriers out there to make sure that people have to leave their communities to go elsewhere to look for work because there are just no opportunities available in the local business climate.

Mr. GRIFFIN. First of all, thank you all for having this event, thank you for inviting us.

I think as far as SBA paperwork is concerned, and that is my area of expertise, it seems to me like a lot of forms that are in the process where you certify to something and you acknowledge something, that they can combine eight or nine forms into one.

Chairman SCHROCK. Where you answer the same thing over and over again; is that what it is?

Mr. GRIFFIN. You are certifying that you won't use lead-based paint, you are certifying that you will comply with certain job employment, and carrying workers' compensation insurance, and things that you certify to in the application.

It seems like there are certain forms that are stand-alone forms that they could consolidate them and combine all that onto one form. I think that would help our process in the banking community under 7(a) and under 504 more than anything else.

Mr. LOGAN. I guess from the SBDC's perspective the number one issue that I would ask, and I want to emphasize that we have had an excellent relationship with our district SBA office, but there appears to be from a national perspective more and more emphasis put on body count——

Chairman SCHROCK. What?

Mr. LOGAN [CONTINUING] By contact meeting, the number of people you meet.

I have in my tenure with the SBDC tried to emphasize that we are not a business assistance entitlement program, we want to help

those that have potential that have done the basis to get their businesses off the ground. Many times our greatest successes come in more rural areas of the state, less urbanized areas. We cannot get the number of contacts and just the number of face time with individuals and really be effective. We would like to see it for a minimum of seven to eight hours per client on an average so it will be effective. So that is one of the things that I would really like to emphasize when it comes to technical assistance is let us help the ones that are willing to help themselves, that are prepared to start their own business and not just to try to greet and meet everybody and do more of a handshaking session.

Mr. WILBANKS. I think improvements to the SBA program that have been mentioned, youth entrepreneurship, incorporating that some way into our educational system, and continuing support of the Manufacturing Extension Partnership that allows Georgia Tech and folks like us to provide technical assistance that cannot be found in other agencies and resources available to entrepreneurs and small business, whether in Atlanta or if they are in a rural community somewhere.

Mr. PRESNELL. I also thank you for the opportunity. As you go back and contemplate what your recommendations would be consider two or three sources of entrepreneurship originations.

One of course the youth, and then you have your folks coming out of technical school or colleges that are going to be trying to start new businesses, and now we are at the end I believe of the last downturn in the economy. You have got quite a few displaced older folks who are rather than perhaps going back to work for a corporation, they may be starting their own businesses.

Intertwined with all of that I think we need to be very sensitive to the need for family security in terms of retirement benefits and health care packages. Those two things go back to the security of not only the businessperson themselves, but also the employees they are going to hire, and the stability of a business is centered around how they can reduce their turnover rate. And it is easier for them not to have to worry about that if they have benefits that will attract good, sound employees to help them grow their business.

Ms. FOWLER. Thank you so much for the opportunity to be here.

I just would like to address the issue of the legislative proposal, and all I want is for people to realize that this is a starting point. If we did not do anything we probably would collapse, frankly.

Right now our credibility is very shaken in the field, our partners are concerned—and I am talking about lending partners and technical assistance partners—because of all the issues that we have had to contend with in the prior year, and consider this as a starting point and all the feedback that comes from this type of forums and the information that we are going to be sending to our people at headquarters to start the dialogue, but something needs to be done, and the best way that we knew how to do it was following our administration's agenda because we do not want to increase the fees to the small businesses. That is a tax to them. That is the bottom line.

So we need to work it out where we are on equal partnership with our lenders to be able to provide what the small businesses need, access to capital.

Thank you.

Chairman SCHROCK. Mr. Burns.

Mr. BURNS. I just want to add my thanks to the panel, and to the participants. I know it has been a long afternoon, it has been a productive afternoon. I will tell you that if we do this in D.C. we cannot get this kind of dialogue, we cannot focus on this issue with the intensity we have been able to do this afternoon, and I want to thank you for your input, and I want to thank you for your time.

I want to thank the Chairman for his willingness to come to Augusta, to come to the 12th District, to listen to our input and our opportunities, and then to take it back and to provide results, results that will create the jobs in this community and around our state, and around our nation, and it is going to be because of your willingness to share your knowledge and expertise. Thank you.

Again I am delighted that Chairman Schrock would join us here in Augusta and have an opportunity to talk about the real segment of our economy that is going to create the vast majority of the future of America, and I want to say thank you.

Chairman SCHROCK. Thank you.

Let me say one more thing. We did not do this, and I did not come here just because I did not have anything to do on Monday. I came here because this is deadly serious and because Max wanted me to come here and, believe me, we are not going to have this hearing and have everybody think it was a great hearing, we are going to do something about it.

I am fed up—I got into this elected arena at the State Senate level in Virginia and at the Congressional level because I was fed up with the government bureaucracies ruining this country, and with some of the horrible regulations that they have imposed on business, and everybody for that matter, and if we get enough people in Richmond and in Washington to take on that mantra and try to do something about it, something could be done. We have a very passionate chairman of the full committee, Don Manzullo from Illinois—I do not know if you know him or not—but he is just dogged about this, and he is not going to let go until people give in.

Trying to get the federal agencies in downtown Washington to respond to even members of Congress is next to impossible. I am tired of that. We are the elected people, we have a right to ask questions and expect results from these people, and we do not get it. They ignore us, they treat us like we do not belong there, and that is going to stop, and I think more and more classes of congressional people that come in—Max's class is unbelievable—I came in with the 107th, he came in with the 108th—the 108th is not going to put up with this. We are not either, because we are the new guys on the block, we have had to live it out there, and we have go to do something about it.

So I can assure you with the staff we have and the things we hope we can accomplish—unfortunately Rome was not built in a day—I am very impatient, I am the worst Type A personality in the world, I want it done now, because when I see a wrong I want

it done now, but, guys, it just does not work that way in Washington, it really does not.

But we are going to keep at it, and I think the more we hammer, the more we have these hearings, the more we bug the agencies and pick on them, and pick on them, and pick on them they are finally going to say for God's sake let us just get it done and get it over with.

I had a very bad reputation with one of the agencies in the State Capitol of Virginia in Richmond, so bad that one time when I called I heard the lady say before she stuck me on hold "Oh, my God, it is him again," but that was a good thing. They knew when I called that I was not going to let go until we got things done, and we had good results. And we have to do that in Washington, and the more of us that do it the better, and I am going to continue to do it, and I know Max Burns will, and we just ask you to bear with us.

I know everybody says that all the time, but it takes a while, and we are going to do it.

I really thank you for coming here and sharing with us today. I really appreciate the time you took, and I have thoroughly enjoyed being here, and if I can look for an excuse to come back again I will.

Again thank you very much, and this hearing is adjourned.

[Whereupon, at 4:45 p.m. the subcommittee meeting was concluded.]

Statement of Ed Schrock
Chairman
Subcommittee on Regulatory Reform and Oversight
Committee on Small Business
United States House of Representatives
Washington, DC
March 1, 2004

I just want to start by saying how pleased I am to be with my friend Congressman Max Burns. Max is a great champion of small business. The people of the 12th District are lucky to have him. In my role as Chairman of the Subcommittee on Regulatory Reform & Oversight of the House Small Business Committee, I often hear from small businesses on the challenges to economic growth and prosperity.

Max has told me what an amazing group of entrepreneurs and community leaders reside in this district. I am anxious to hear from all of today's witnesses. And I want to thank Max for making this event possible today.

Small businesses in this country employ more than half of all private sector employees and create 60-80% of the net new jobs in this country. Small businesses are always the leaders in bringing our country back to strong economic growth and job creation. Small businesses in this country face the same problems as many other businesses: high energy prices, the high cost of health insurance for employees, the high cost of regulatory compliance, and a tax code that is not always helpful to them. It is incumbent upon Congress and the President to do everything in our power to remove barriers to small businesses' success and survival.

And Max and I are working on many initiatives in the House to do just that. We have worked on tax relief for small businesses, we've passed bills to provide Association

Health Plans and Health Savings Accounts, and our committee is working to reauthorize the Small Business Administration in a way to make it help the largest number of small businesses including manufacturers.

With that, Max, thank you again and I look forward to the testimony of our witnesses today.

House Committee on Small Business
Subcommittee on Regulatory Reform & Oversight Hearing
Monday, March 1, 2004

Testimony provided by: Randy Griffin, President
On Behalf of: CSRA Business Lending, Augusta, Georgia
Testimony heard by: House Committee on Small Business, Subcommittee on Regulatory Reform & Oversight
House Members Present for Testimony: Representative Ed Schrock, Chairman, Subcommittee on Reform & Oversight, House Committee on Small Business; Representative Max Burns

---

Good afternoon Chairman Schrock and Congressman Burns. On behalf of our small business customers and Board of Directors I would like to thank you for hosting this hearing on ways we can stimulate small business growth in our economy here in Eastern Georgia.

I am Randy Griffin, President of CSRA Business Lending, a non-profit small business lending corporation that makes small business loans primarily in 17 counties in East Central Georgia and 7 counties in Western South Carolina. Our organization has lending agreements and partners with three federal agencies: the U.S. Small Business Administration (we are an SBA-504 lender certified by SBA); the Department of Agriculture; and, the Department of Commerce. Using these agencies our organization has funded 189 projects for small businesses totaling $87.4 million dollars over the past five years. These loans have created 1,352 jobs in some of the poorest, most rural counties in America.

Since our expertise is small business loans and rural areas, I will focus my testimony on those areas. I will cover primarily two programs, the SBA-504 loan program and the SBA 7(a) program, and talk about improvements and challenges those programs face in making capital available to businesses in an area like ours.

SBA-504 Program

The primary program that our agency operates that the committee has oversight over is the SBA-504 loan program. We have worked with a variety of small business loan programs from various federal agencies and SBA-504 is by far one of the best designed and efficient we work with. The SBA-504 program allows a business to finance land, building, and equipment, with low down payments, at long term fixed rates. What makes this program unique is it operates at zero cost to tax payers by collecting fees from the borrowers and banks that participate that keep the program operating with no appropriation. The program has near unanimous support in Congress. In a typical 504 loan transaction a bank finances 50% of a businesses real estate and/or equipment, SBA finances 40% through non-profit community organizations like ours and obtains its funding through the sale of a debenture that they guaranty. The borrower only has to put down 10% down (slightly more in the case of start-ups or limited use assets). There are a few issues we would like to see addressed with regards to the SBA-504 loan program most of which would be fixed by a bill that is now pending before the House Committee on Small Business.

SBA-504 Issue #1 – Reauthorization before March 15 (MOST PRESSING)
Mr. Chairman while the SBA-504 program operates at no cost to taxpayers and is unanimously supported it must be reauthorized every three years by Congress so that SBA has authority to collect fees to keep the program at zero cost. The current authorization expires on Monday, March 15, 2004. Currently pending before the House Committee on Small Business is ***HR2802 Certified Development Company SBA Reauthorization Act of 2004***. It has been there for close to five months. This bill must move. Simply put, if we do not have a bill signed by President Bush by March 15, the SBA-504 program is shut down until such a reauthorization is passed. If this were to happen it would be the second such shut down SBA will have faced in the past few months in a major program. Mr. Chairman, not only would this effect our community, it would effect your community where in Norfolk, the program is operated by Tidewater Business Financing Corporation who according to SBA reports has approved 19 SBA-504 projects for approximately $18,500,000 over the last 16 months. Like us, Tidewater Business Financing is experiencing a tremendous growth in their SBA-504 loan approvals this year due to the strengthening of the economy. SBA-504 lending in your region of Virginia has already surpassed last years loan approvals in just the first four months of fiscal year 2004.

SBA-504 Issue #2 – Create a Low-Doc SBA-504
Mr. Chairman, this is a recent SBA-504 application we did for a Mexican Restaurant. It measures just over 4 inches thick. Mr. Burns this is a copy of a application and closing package we financed in your hometown of Sylvania it is just under 4 inches thick. This is a copy of an SBA-Low Doc application under SBA's other loan program, the 7(a) program. It is only one page front and back. Why is it that the SBA can have a streamlined application in the 7(a) program, but not the 504 program? The same bill (HR2802) that will reauthorize the SBA-504 program, directs SBA to develop and issue a simplified application for smaller SBA-504 loans of $250,000 or less. This would greatly reduce paperwork on both our organization, SBA, and the small business borrowers we serve.

SBA-504 Issue #3– Changes Definition of Rural for SBA-504 Eligibility
Mr. Chairman to be eligible for an SBA-504 loan you must create jobs or achieve one of SBA's other objectives one of which is to be a business located in a rural community. The current maximum size a city or town must be to be considered rural is 20,000 persons. HR2802 changes that to 50,000 to match the recent farm bill. Mr. Burns what this means for our area is that Statesboro would become automatically eligible again for 504 loans. Statesboro had recently grown to just over 20,000 persons no longer making it a rural community according to SBA standards.

Chairman Schrock and Congressman Burns, we would request that you contact House Committee on Small Business Chairman Manzullo and Speaker Hastert to schedule HR2802 for a floor vote as soon as possible and that you support passage of this bill. This bill will address all three concerns above as well as others. It will make it much easier for us to help small businesses. At a minimum we must have the reauthorization piece passed by March 15th or we could be in another shut down situation like that recently suffered by the 7(a) program.

SBA 7(a) Program

Mr. Chairman, I would like to briefly comment about a second loan program we work closely with that your committee has jurisdiction over that being the SBA 7(a) program. As you are aware there have been major funding problems in the 7(a) loan program. The SBA 7(a) loan program operates where a bank or other approved SBA lender makes a loan and that loan is then guaranteed by SBA up to 85%. The difference in the 7(a) program versus 504 program is 7(a) funds working capital, inventory, and debt refinance, whereas 504 is strictly a real estate and equipment financing program. We have packaged 7(a) loans for small community banks throughout the eastern portion of the state who do not have their own SBA lending staffs. As you are both aware the 7(a) program was recently shut down after the number and dollar amount of loan applications being approved daily by SBA through the first three months of FY 2004 was far greater than what had been budgeted. As a result of this SBA placed a cap on loans to curb the growth. Now as a long term solution to the continued projected growth in the program, SBA in the 2005 Budget is proposing to increase fees in the 7(a) program to move it to a zero appropriation similar to that of the SBA-504 program beginning in 2005. The appropriation would be totally phased out by 2007. As part of this SBA is proposing the maximum guaranty a bank or other lender would be paid would be 50% by 2007. This is not acceptable and we would ask you to oppose it. Such a change would lead to many banks and other lenders who are critical sources for small business capital discontinuing their participation in the program. Many of these organizations are already laying off staff. For our smaller rural areas, this would lead to almost every rural bank we work for discontinuing the use of the 7(a) program. This is critical, because we can document several situations in our area over the past decade where rural banks stepped in and made loans to save a key business or industry in their town, but only did so because they were able to obtain a government guaranty on that loan of 75% or more. One of the possible solutions for the SBA 7(a) funding crisis could be to move funds from USDA B&I Program. Mr. Chairman I would suggest you ask the budget committee staff to study eliminating the USDA B&I guaranty program and move that funding to the 7(a) loan program because the two are duplicative. USDA B&I is far more cumbersome, has too much red tape, and takes much longer in obtaining an approval than 7(a). The two both provide guarantees to banks making business loans. It makes no sense to have two federal agencies delivering them. Those funds would be far better served being made available to SBA to make loans to rural businesses using the 7(a) program. This combining of programs would not provide SBA the full amount needed to fund its program, but it would help and would eliminate duplicative programs.

Chairman Schrock and Congressman Burns, I strongly urge you to reject the proposal being submitted by SBA to take the 7(a) program to a zero subsidy and create some alternative solution that would maintain the current 75% guaranty the agency has in place for regular SBA 7(a) loans. At a minimum make special provisions in the 7(a) program for higher guarantees for banks making loans in rural areas. I would also suggest you look at eliminating the USDA Business and Industry guaranty program and move that funding to the 7(a) loan program to help with the funding issues. SBA should be making the business loans, not USDA.

Summary

Chairman Schrock, Congressman Burns, there are many problems SBA's regulations pose in small business efforts to obtain capital. We cannot fix them all here today. I hope you will remember the four inch loan file you saw here today as your work continues on reducing paperwork burdens and I hope you would work with urgency to reauthorize the SBA-504 loan program prior to March 15th. Remember, if we do not have a 504 bill by March 15, we do not have a 504 program. Thanks you for allowing me to testify and I would be happy to take questions.

Terry D. Elam
President
Augusta Technical College

Testimony
March 1, 2004

Entrepreneurship is an engine that drives local, state and our nation's economy. Job growth and development is tied to small business development and survival. Small businesses account for the majority of business and job growth in America. The flip side of that is the high number of small business failures contribute to job losses. These losses affect both the entrepreneur, their families and those that work for them. Developing a system to nurture small business development so the survival rate will increase is very important for our economy.

The art of entrepreneurship is more than developing a business plan It also involves understanding start up as well as the legal environment of small business. Many new entrepreneurs are trapped by their own businesses and confused because they have great ideas but lack the fundamental skills in business development and operations. They may have been very skilled at what they are trying to sell or produce as a product, but lack the basic fundamentals of business operations (i.e.: licensure, tax issues, reinvestment). Entrepreneurs need centers of excellence to attain these skills. I will give two examples of centers that I think can help entrepreneurs avoid the trap of failure.

Small business incubators appear to be one resource that needs to be expanded to meet the needs of entrepreneurs. I am talking about the concept of incubators not necessarily the physical building where an incubator may reside. It would be nice if all communities had business incubators with low cost rent and resources available for public access but the cost of developing such a large network of centers would be beyond both public and private funds available. So, we need to develop as many incubators as possible that exist for businesses to move into but we also need to look at the possibility of developing virtual incubators. Incubators where small businesses can go online and receive the same type of services that businesses located in an incubator can have. All services may or may not be offered on line but at least the definition of what those services should be and where those services should be found would open up these services for entrepreneurs anywhere.

Augusta Technical College operates the Augusta Richmond County Small Business Incubator. The incubator was funded with 1.1 million dollar EDA grant and $400,000 from the local Richmond County government. Land for the incubator was attained from the college. The incubator uses a Small Business Advisory Board made up of area business leaders that clients are required to meet with quarterly. Clients are allowed three years at a minimum rate rent to stay in the incubator and use its services. The college supplies staff and assistance to the clients. Additional services include strategic business

planning, management, market research, loan packaging, technical consulting, and legal advice through local attorneys. Equipment such as high speed internet access, telephone lines, photo coping at a minimum cost, and other services are offered through the college. Conference rooms, kitchen facilities, and the location on a college campus all help to maintain the attractiveness of this facility. This facility currently has ten start up companies and had a waiting list of companies applying for space. The total facility is 18,000 square feet.

The college also offers a technical certificate of credit in Entrepreneur studies. The college is also partnering with the Metro Augusta Chamber of Commerce and Turner Construction for a special contractor college. This six week program was designed to help small businesses in acquiring contracts as sub-contractors on large construction projects. The college is committed to entrepreneurship because we recognize that our community will be built on small business development. Our graduates will be the entrepreneurs of today and the future. We are committed to not only developing a community that has workforce skills, but also entrepreneurship savvy for the health of our community.

The University of Georgia

Statement of

Henry H. Logan

State Director

The Georgia Small Business Development Center Network

March 1, 2004

Before the

U.S. House of Representatives Committee on Small Business

Chairman Schrock, Congressman Burns, and Members of the House Small Business Committee, thank you for requesting my participation in this important hearing. My name is Hank Logan, and I am the state director of the Georgia Small Business Development Center Network. The Georgia SBDC is housed at the University of Georgia campus in Athens, and through partnerships with nine other universities and colleges in the state we provide business consulting and continuing education opportunities to Georgia's entrepreneurs. In 2003, our consultants assisted 5,431 business clients with a variety of challenges, including but not limited to, how to start a business, how to write a business plan, how to apply for a loan or seek out other financial resources, how to market their products and services, and how to plan for succession of the business. Additionally, we provided 956 training programs across the state often in conjunction with other business assistance organizations. Examples of these include tax workshops cosponsored with the IRS and the award winning "Drugs Don't Work" program cosponsored with the Georgia Chamber of Commerce. We also provided services to targeted markets including minority business owners, Hispanic business owners, women business owners, and community groups interested in business creation and retention as economic development strategies. It is important to note that the Georgia SBDC Network is part of a larger network. There are SBDC programs in all fifty states as well as the District of Columbia and several U.S. territories. The U.S.

Small Business Administration (SBA) and the University System of Georgia provide most of the funding for the Georgia SBDC Network.

The impact of small businesses on the Georgia economy cannot be underestimated. According to the latest data from the SBA, small businesses account for 97.5 percent of all the businesses in Georgia and employ 43.5 percent of the state's non-farm, private sector workers. Similarly for the nation, 99.7 percent of all businesses are defined as "small" (less than 500 employees) and they employ 50.1 percent of the nation's workforce. Georgia is often cited in the popular press as well as academic publications as a leader in entrepreneurship. The cities of Atlanta, Savannah, and recently Albany have been noted as "hotbeds" of entrepreneurship.

Numerous statistics tout the growth rate of small businesses. In fact, from 1999-2000, small businesses created three-quarters of the net new jobs in the United States. Another research study from the Census Bureau found that start-ups in their first two years of operation accounted for virtually *all* of the net new jobs from 1995-1996 (Zoltan & Armington, 2003). The latest data from the SBA Office of Advocacy reports that U.S. small businesses with employees start up at a rate of approximately 500,000 per year, and after four years of operation, half of these small businesses with employees remain open. One of the most interesting statistics concerning business start-ups in the U.S. is that at any given time, 6.2 individuals out of 100 over the age of 18 are in the process of developing a business venture.

Surely everyone knows a few small business owners, but to truly appreciate their impact, they must be considered in total. One statistic, which impresses me every time I hear it, is the combined output for America's small businesses. Not only does small business activity account for 52 percent of the U.S. Gross Domestic Product, but in essence, it constitutes the second largest economy in the *world*. The U.S. small business economy is larger than the entire Japanese economy. It is larger than the combined economies of Germany, Great Brittan and France – which are the third, fourth and fifth largest economies in the world. The success of the U.S. small business economy, therefore, is critical to the economic well being of *all* Americans.

As we all know, business creation is not an exact science. Therefore, a high rate of business closures usually coincides with a high rate of business start-ups. This phenomenon is to be expected, as the economist Joseph Schumpeter stated in his work *Capitalism, Socialism, and Democracy*:

> "Economic progress, in capitalist society, means turmoil."

Businesses come and businesses go, driven by economic forces and whims of a fickle market. At the Georgia SBDC, we equip our clients with knowledge to combat these forces, overcome these whims, and sustain their ventures when others may simply throw in the towel.

By working with thousands of small businesses every year, the Georgia SBDC Network has a clear perspective on the challenges and special issues that small businesses must overcome in order to succeed in today's economy. Through formal and informal needs assessments, we check the pulse of the small business community and develop consulting tools and training programs in direct response to the areas of greatest need.

The most recent small business needs assessment conducted by the Georgia SBDC Network was administered via an on-line survey in the fall of 2003. The following issues were noted as the top ten "concerns" of Georgia small business owners:

1. Marketing strategies
2. Government services to small businesses
3. Small business regulations
4. Compliance with federal regulations
5. Advertising
6. Taxes
7. Sources of capital
8. Website development/management
9. Cash flow
10. Motivating employees

These are not new concerns, however, they do underscore small business owners' desire to grow their businesses. Marketing and advertising form the basis of any expansion plan. Our analysis has shown these areas to be of greater concern to women business owners that want to increase their business revenues. We plan to respond to this need by offering a series of selling skills classes. Taxes are a perennial issue for small businesses, both in terms of amount paid and complexity of the laws. In our workshops with the IRS, we have begun utilizing the GSAMS technology in order to educate multiple markets simultaneously. Locating sources of capital is critical for many small businesses, but according to previous studies the Georgia SBDC Network has conducted, it is particularly so among minority-owned firms. To this end, we have developed a training program entitled, "Myths and Realities of Minority Financing." As a result of this training class, we have seen a dramatic improvement in the number of loans and amount of loans awarded to our minority entrepreneur clients. Government regulations continue to be regarded as an impediment to growth. Oftentimes, it is not the purpose of the regulation that is viewed as burdensome, but rather the procedures for compliance that negate efficiency.

While SBDCs all over the country are helping entrepreneurs meet the challenges of business ownership, there are steps the government can take to improve operating conditions. For example, a report entitled *Home-based Business and Government Regulations* written by Microeconomic Applications and funded by the SBA Office of Advocacy found that:

- Local zoning is often restrictive, and
- IRS regulations penalize home-based businesses in their treatment of deductions (i.e., claiming home office deductions is complex; depreciation is spread over an

unrealistically long time; and returning the space to full residential status generally entails penalties).

Approximately 53 percent of all small businesses are home-based; therefore, these restrictions are far-reaching. While the original intent of these regulations probably was not to inhibit the growth of businesses, that is certainly the outcome.

Georgia small business needs assessment respondents also evaluated their communities' strengths and weaknesses as a place to do business. The data show some regional variations, but overall responses are as follows:

Community Strengths

- Potential for Growth (40%)
- Weather/Climate (28%)
- Educational System (22%)
- Road System (16%)
- Telecommunications (15%)
- Availability of Business Assistance (15%)
- Costs of Facilities (12%)
- Costs of Labor (12%)
- Marketing Region for Economic Development (12%)
- Cultural Opportunities (11%)
- Recreational Opportunities (11%)
- Costs of Land (11%)
- Costs of Housing (11%)

Community Weaknesses

- Road System (20%)
- Quality of Labor Pool (19%)
- Educational System (14%)
- Cultural Opportunities (14%)
- Transportation System (13%)
- Access to Major Customers (13%)
- Access to Financing (10%)
- Water & Sewer System (10%)
- City Support/Incentives (10%)
- Healthcare (10%)

It is exciting to note the enthusiasm of Georgia's small business owners, with over 40 percent declaring their community's growth potential as a strength in their locale. There appears to be some inconsistency with regard to the educational system, cultural amenities, and road systems due to the exact location of the various respondents. Access to financing was noted as a community weakness – the impact of which can be devastating to small businesses. According to the study *Impact of Tight Money and/or Recessions on Small Business* by Wilcox, Hancock and Peek (2004), it was found that

SBA programs and smaller community bank capital act as stimulators and economic stabilizers for small businesses.

Therefore, it is imperative that Congress support SBA's efforts to expand the 7(a) loan program. In 2003, the SBA issued a record number of loan guarantees. Just this past month, the SBA proposed legislation that, if passed, would add $3 billion to the 7(a) loan program, an increase of 30 percent which will provide funds for thousands more loans. This new bill also returns the cap to $2 million, as preferred by most lenders. The proposed SBA Express program allows lenders to apply for 7(a) loans using their own forms rather than the lengthy government forms. The estimated impact of these proposed changes is 22,000 additional loans and 500,000 new jobs. Moreover, the FY 2005 proposal calls for an additional increase to the 7(a) loan guarantee program, raising the total amount of the program to $12.5 billion. Support for this legislative proposal from Congress and the Presidential Administration would assure the American public that business growth, including new jobs, is a top priority for this country.

Many experts agree that by siphoning off labor-intensive functions overseas, the true competitive advantage the United States now holds over other world economies is our spirit of innovation, and small business plays a crucial role in delivering these innovations to the marketplace. Indeed, the SBA Office of Advocacy states that small patenting firms produce 13 to 14 more patents per employee than large patenting firms. Additionally, a 2003 report from CHI Research details the contributions of small firms to the innovation process via acquisitions by larger firms and the hiring of elite investors. However, many of these creative high tech firms lack the comprehensive business acumen needed to make those innovations a reality. Thus the assistance provided through programs such as SBIR, STTR and the SBA's FAST are extremely important to the continual development and deployment of original concepts and new technology.

The Georgia SBDC Network is proud to be of service to the state's small businesses. Georgia has a long history with the SBDC program. We know the SBDC program works because every year we conduct an impact analysis of our consulting services, and every year we are able to show that the incremental tax revenues generated by our clients, over and above those of the average Georgia business, exceed the budget of the Georgia SBDC Network. Thus, the federal government and the state government are earning a positive return on their investment in the Georgia SBDC Network. Only through the continued support of Congress will the SBA and the SBDC be empowered to assist small businesses to bring innovations to the world market and jobs to our citizens.

Committee on Small Business of the U.S. House of Representatives
Monday, March 1, 2004
Augusta, Georgia

On behalf of Georgia Tech's Economic Development Institute (EDI) and the Georgia Rural Economic Development Center, we appreciate the opportunity to testify before the Committee on Small Business of the U.S. House of Representatives regarding challenges to small-business growth in today's economy.

Entrepreneurs and small businesses are vital to growing Georgia's, as well as the nation's, economy as the following statistics demonstrate:

- Ninety-five percent of all Georgia businesses have fewer than 50 employees (Georgia Department of Labor).
- Small businesses with fewer than 20 employees in Georgia generated 61 percent of all small-business growth over the last four years, creating nearly 50,000 jobs (Georgia Department of Labor).
- These businesses represent 85.5 percent of all firms and employ 25 percent of the private-sector workforce (Georgia Department of Labor).
- Atlanta, Georgia, ranks number one in *INC.* magazine's 2004 Top Cities list for city locations with the most fertile ground to start a business.

Unfortunately, unlike Atlanta, rural communities in Georgia have a difficult task not only in recruiting new jobs to their community, but also growing technology-focused entrepreneurs due to lack of resources, vision, and exposure to technology and innovation. Georgia has 106 mostly rural counties designated as Tier 1 and Tier 2 counties due to their lagging or declining economic indicators. In fact, over 75 percent of Georgia's Tier 1 and 2 counties experienced declining, flat, or only single-digit growth of small-businesses with fewer than 20 employees during 1999 – 2003. Other statistics represent a need for increased efforts to improve the competitiveness of Georgia's small businesses:

- Georgia's small businesses are below the national averages in patent applications, and rural Georgia entrepreneurs lag national averages in research and development commercialization.
- In 2002, nearly 31,500 small businesses in Georgia were terminated or closed, with 1,359 shut down through bankruptcy. Both figures are significantly higher than the national average.
- Georgia's farmers and small agribusinesses rank 40th nationally in their use of on-line technology and the Internet. Such modest usage severely handicaps their ability to grow their businesses.

Georgia Tech has a long history of helping to grow Georgia's technology-focus entrepreneurs and small businesses and make them more competitive through several complementary organizations:

- The Economic Development Institute (EDI) provides technology-driven solutions to make Georgia's small and medium-sized companies and communities more competitive. Georgia Tech is a member of the Manufacturing Extension Partnership, a national network of technical assistance centers that help small- and mid-sized manufacturers.

- The Advanced Technology Development Center (ATDC) helps Georgia entrepreneurs launch and build successful technology-based companies through its nationally recognized technology incubator network. Investment in technology companies assisted by ATDC totaled more than $94 million in 2002. Incubator companies generated more than $684 million in revenues and provided more than 4,900 high-tech jobs during 2002.

- ENet (Entrepreneurial Network) helps Georgia communities develop the supportive environment and infrastructure they need to encourage formation and growth of local business ventures. ENet has assisted over 22 Georgia counties interested in developing strategies to encourage and support entrepreneurs.

- Georgia Tech Research Institute (GTRI) is the non-profit applied research arm of Georgia Tech that performs research for entrepreneurs, industry, and government. Recent GTRI achievements include emergency response technology for homeland security, meta-material manufacturing models, and localized noise masking technology.

For example, Georgia Tech EDI has been involved in several efforts in the 12th Congressional district to assist small business and communities:

- In Warren County, EDI assisted Jebco, Inc., a contract metal fabricator started by a local entrepreneur, with its quality system implementation to achieve ISO 9001:2000 certification in areas such as gap analysis, training, and pre-assessment audits. This assistance has helped Jebco, Inc. boost productivity and meet requirements from its larger customers.

- In Augusta, EDI assisted Career Personnel--an 11-employee, woman-owned staffing company---secure a multimillion-dollar contract with a government contractor, the Washington Group International, which operates the Savannah River Site. EDI assisted with understanding the requirements of an extremely technical government contract, organizing and writing a proposal, leading a team review, and preparing a final proposal.

- In Richmond County, EDI and GREDC assisted Jenkins Comfort Systems, Inc., an entrepreneurial start-up firm, with its business and marketing strategic planning. The company manufactures a patented, thermal cooling vest system which protects users from dehydration, hypothermia, and temperature-related stress.

- In Savannah, Georgia Tech's business incubator is assisting Storm Shelter Electronics Corporation, an entrepreneurial start-up company that has developed a sophisticated system for protecting sensitive electronics from the damage of lightning. The Savannah incubator shares space with the Georgia Tech Regional Engineering Program and EDI's regional office.

A New, Innovative Strategy Proposed

To get their innovations to market, technology-focused entrepreneurs need a wide variety of management and technical resources and assistance seldom available in rural communities.

In 2001, EDI partnered with East Georgia College's Georgia Rural Economic Development Center (GREDC) in an innovative effort to foster entrepreneur development in rural Georgia through management and technical assistance to entrepreneurs and rural communities. The GREDC, supported by the University System of Georgia's Intellectual Capital Partnership Program (ICAPP), has produced significant results through its entrepreneurial outreach efforts during the last two-and-a-half years. The GREDC and EDI program has helped 110 entrepreneurs and small firms to start and grow businesses in a 21-county region of rural Georgia. These entrepreneurs and small businesses have created more than 430 jobs.

Currently, Georgia Tech and the Georgia Department of Economic Development (GDED) are proposing to replicate the success of the GREDC program elsewhere in rural Georgia to improve the entrepreneur and small-business climate by providing needed technology resources to start and grow innovative businesses.

- Georgia Tech ENet and GDED will educate and assist rural communities in enhancing entrepreneur development activity.

- Innovation Centers, proposed to be located in Georgia's smaller cities, will identify leading problems in industry and develop innovative solutions through research and development.

- Georgia Tech EDI's Business Start-up Facilitators will provide on-site management and technical assistance and mentoring to technology-focused entrepreneurs and small businesses with fewer than 20 employees throughout rural Georgia's Tier 1 and 2 counties surrounding the Innovation Centers. The goal will be to commercialize these solutions into new products and services.

These efforts by Georgia Tech and GDED will leverage many state and federal resources as well as complement the existing Small Business Development Centers network. These combined resources will provide more specialized management and technical assistance to entrepreneurs and start-ups to foster innovative businesses and jobs in rural Georgia.

Opportunities For Additional Improvement

In addition to elements of the above proposal, there are other opportunities to improve Georgia's small business climate and help grow entrepreneurs:

1. Support is needed for the innovation and outreach proposal by Georgia Tech and the GDED programs to grow innovative, technology-focused entrepreneurs and small business in rural Georgia. Timing for this effort is ripe. Both Gov. Sonny Perdue and GDED recognize the importance of entrepreneur development and are supportive of efforts to improve Georgia's entrepreneurial small-business climate. Unfortunately, state budgets and resources currently are very tight. But fortunately, this innovation outreach effort is based on cost-efficient, proven models. Georgia could support a first-year effort of six innovation centers and outreach staff to cover almost 100 rural counties for less than it costs one community in Georgia to build a 100,000-square-foot spec building for industrial recruitment. Federal agency funds made available to match state investments in the program could extend the effort and accelerate its successful implementation.

2. The U.S. Small Business Administration (SBA) programs need to be upgraded to better assist entrepreneurs and small businesses. SBA is a vital component in funding the growth of small businesses. SBA programs could be strengthened to help entrepreneurs and small businesses through the following improvements:
    - Increase the 7a loan program to the $2.0 million level to include a $1.0 million guaranty. Or, adjust the 504 program to allow debt refinancing. Currently, with the 504 program only available for purchase or new construction and the 7a program limit at $750,000, some legitimate refinance loans are not being funded. A guaranty level of 85 percent could be placed on loans up to $250,000, and the level could be reduced to 50 to 75 percent for loans above $250,000. This would enable SBA to serve more small business and allow for larger projects to be funded but at a reduced guaranty percentage.

- Prevent the unscheduled shutdowns of the $150,000 to $750,000 range 7a loans, which leave entrepreneurs and small business owners in the process of financing their businesses without operating capital and unsure of the outcome of their financing plans.

3. Tax relief to small businesses to spur economic growth must be continued. The Jobs & Growth Tax Relief Reconciliation Act of 2003 is an effective federal initiative to encourage small businesses to purchase new, more efficient equipment to become competitive. These tax deductions and increased depreciation allotments are important to growing our small businesses and making them more efficient and competitive.

4. Youth entrepreneurship programs such as REAL (Rural Entrepreneurship Action Learning) need to be expanded in Georgia. A recent Harvard University study of 312 high school students in Boston conducted for the National Foundation for Teaching Entrepreneurship found that students who take part in entrepreneurship programs read more on their own, become more interested in college, and think more about whether they will be a success once they leave school.

5. Programs to assist and support the growing number of minority and immigrant entrepreneurs need to be supported and expanded. The 2nd Annual Regional Minority Enterprise Conference and Expo held in Augusta, Georgia, on February 23, 2004 exemplifies efforts to assist minority and non-minority business development by regional, state, and federal agencies such as National Center for Economic Development Business and Technology, Governor's Small Business Center, Georgia Minority Supplier Development Council, U.S. Small Business Administration, and the U.S. Department of Commerce's Minority Business Development Agency.

Small businesses are the heart and soul of our economy. They generate jobs and revenue and manifest the American traditions of innovation, self-reliance and the pioneering spirit. But entrepreneurs and small-business owners are not necessarily wealthy and well-connected, not necessarily engineers or marketing experts, not necessarily linked to labs, universities and other resources. It has been our experience that selected tax incentives and loan opportunities, low-cost technical assistance, and sometimes simply the right information at the right time can make a difference in whether these enterprises thrive or not.

On behalf of Georgia Tech and GREDC, we appreciate the Small Business Committee allowing us to suggest the above opportunities to improve the small business climate in Georgia as well as the nation. If we can be of assistance in regard to these issues, please contact us.

Sincerely,

Patrick Wilbanks
Entrepreneur Services Coordinator
Georgia Tech Economic Development Institute

Georgia Rural Economic Development Center
131 College Circle
Swainsboro, GA 30401
Phone: 478-289-2138
Fax: 478-289-2057
Email: patrick.wilbanks@edi.gatech.edu

I would like to thank the Chairman, Congressman Burns, and others with the Committee on Small Business for taking the opportunity to come to Augusta today and explore our needs as we try to grow our community.

I am Ed Presnell, President of the Augusta Metro Chamber of Commerce. The Chamber is made up of over 1800 members, most of whom are small businesses. Each one of our members faces the challenges of an increasingly competitive and turbulent marketplace. I marvel at the ingenuity and resourcefulness of our small businesses as they turn their dreams into reality.

We all are aware that launching a small business is a risky activity and that the failure rate is high, but those that do succeed and grow are the backbone of our economy and the greatest producer of new jobs in our community. That is why the Augusta Metro Chamber of Commerce is focused on providing services to small business, as well as assuring that our community is a business friendly environment. I know the committee shares these goals.

Small business people often start with little more than a vision. Many obstacles stand between them and even starting a business. The greatest of these obstacles is money. Everyone has had an idea for a business at one time. Most of these pass quickly from mind as the reality of what it takes to start a business sets in. Even with the many financing options today, funding a new small business remains a challenge.

Many individuals pass through the Chamber looking for assistance in starting a business. We often refer them to many of the fine organizations that you will be hearing from today, but the questions are usually the same. "How do I get funding for my business, and what are the rules and regulations that I must follow?"

Traditional lending sources often shy away from the risk involved in starting a small business. That is why it is so important that government supported programs targeted towards small business are continued. Secondly, regulation of businesses from the federal level to the local level needs to be simplified and centralized. Small business owners often lack the experience with government and its maze of procedures, therefore eliminating extraneous regulations and centralizing their administration is important to facilitating new business.

Once a business is established there are new challenges. These challenges include finding and keeping quality employees. Businesses of all sizes face the challenge of finding the proper mix of skills and education to meet their needs, but small businesses often face an extra challenge of offering a pay and benefit package that allows them to attract and retain quality employees.

Healthcare is an increasingly important part of our lives. As costs rise for care and insurance cost rise along with them, small business owners and their employees are often left on the outside looking in. Premiums for quality insurance are beyond the reach of most small businesses. Owners find themselves placing their future at risk so as to keep

their business growing, and employees find themselves forced to look for employment where they are able to get better benefits. Programs that allow for increased options for small business in obtaining healthcare should be pursued.

Retirement is the second benefit often associated with employment that is difficult for small businesses to provide. The costs and administrative hurdles of providing savings for the future often make this needed consideration far too optional for small business. As Fed Chairman Alan Greenspan indicated in his comments last week, our country faces a growing crisis regarding retirement savings. I'm afraid that those involved in small business might be especially vulnerable. Small business oriented retirement savings plans could be considered.

Small business is the strength of the American economy. Every mega-corporation at one point was a small business, and tomorrow's will be as well. Small business doesn't outsource its employees to foreign countries or command expensive incentives to expand in a community. Small business simply needs an environment ripe for growth. In order to secure the future of small business in our country, and thereby secure our economy of the future, we need to make sure that we encourage small business development by removing roadblocks to success.

I would like to thank the committee for taking the time to come to Augusta. On behalf of the membership of the Augusta Metro Chamber of Commerce and all small businesses in the community, thank you for the work you do to improve opportunities for business. Please continue to look for new ways that we can make small business more competitive in today's marketplace.

Statement of Nuby Fowler
Region IV Regional Administrator
U.S. Small Business Administration
March 1, 2004

Good Morning Mr. Chairman, Congressman Burns, and members of the committee. Thank you for inviting me to discuss the U.S. Small Business Administration's (SBA) programs to assist America's small business communities.

At the SBA, we have completed one of our most important years ever. The SBA has continued its drive to simplify and improve the Federal government's role in providing capital and technical assistance to America's entrepreneurs. The diversity and success of companies supported by the SBA has been a major factor in the current economic recovery. We're proud of that success. At the same time, though, we must keep a watchful eye on the taxpayers' stake in these programs. As much as we have achieved in the past, we have a chance to improve upon our record.

As the President has emphasized, we can ease the unnecessary burdens on U.S. companies – high tax rates, litigation costs, workers' compensation and unemployment insurance, skyrocketing health care costs, tax preparation costs, high energy prices – and by doing so give our companies a better chance to grow and create new jobs. What's more, if we can encourage private risk-taking, then we can give entrepreneurs the boost they need to find partners, networks, customers, and access to capital. Encouraging private risk taking and investment is one of the missions of the SBA.

President Bush understands the vital role that America's small businesses play in creating opportunities. Last March, the President announced his Small Business Agenda to reduce regulations and taxes, and to expand opportunities for small business. He also recognizes that following times of economic downturn, small businesses play a leading role in economic recovery, and that it is small businesses that generate approximately two-thirds of all new private sector jobs. The President's plan for economic growth and job creation, along with his Small Business Agenda, has been successful in creating an environment in which entrepreneurship can flourish.

As you are aware, SBA submitted its FY 2005 budget request on February 2, 2004. This budget will ensure continuity in SBA's programs for America's small businesses while reducing SBA costs to the taxpayer by approximately $120 million. Through improved management and program reforms, SBA will better serve America's small businesses by reaching into communities where our programs have had little market penetration. This includes rural areas, where SBA district and branch offices are often located several hours away from communities in need.

The most recognizable service SBA provides small business is financial assistance. Last year, a record number of small businesses turned to the U.S. Small Business Administration for credit assistance, producing a 29 percent increase in the total number of loans backed by the Agency in FY 2003, including sharp jumps in the number of loans to women, minorities and veterans. The overall increase in loan approvals under the SBA's three major loan programs came to 29.8 percent, reflecting an increase from 59,563 loans in FY 2002 to 76,465 loans in FY 2003.

These loans demonstrate our commitment to meeting the unique financing needs of small businesses everywhere, and the impressive increase we have posted for the past year validates our approach to making smaller loans more readily available to the real job creation engine of our economy. By focusing on a smaller average loan size we are leveraging our resources to assist more small businesses and create more jobs. Based on statements from our borrowers, our financial backing helped the small businesses of America create or retain more than 526,000 jobs during FY 2003.

Ironically, our success in promoting these programs actually hurt us earlier this year, as SBA was forced to suspend its operations on our 7(a) loan program for a short time. A series of short-term continuing resolutions and unprecedented demand caused the program to run out of budget authority under the last Continuing Resolution. SBA reopened the program as quickly as it could, though we did place some restrictions on the program to keep it running until a more permanent solution can be reached. Let me assure you, Mr. Chairman, SBA did not, nor does it want to, permanently close down this crucial program.

In our FY 2005 budget, SBA has requested a 30% increase for this program to $12.5 billion in lending authority. In addition, SBA is submitting legislation that is a long-term solution for the 7(a) program and will have immediate benefits. Our proposal will put approximately $3 billion in additional loans into the economy and help more small businesses and create more jobs. I urge your support of this proposal.

This legislative proposal will allow the agency to guaranty more loans, create more jobs, and provide stability to the 7(a) program. SBA is listening to its lending partners, and they overwhelmingly agree that consistency in the program is the first priority. SBA's proposal builds on the success of the SBAExpress loan program by simplifying the process and reducing the regulatory compliance burden to small businesses and lenders. The government and private sector will be equal partners in program risk, which will potentially lead to a long-term reduction in fees.

SBA has requested $4.5 billion in lending authority through its 504 program with no subsidy cost to the taxpayers. The 504 program, which was established to increase small businesses' access to real estate and other long-term fixed asset financing, has always had job creation as a program goal. SBA has taken steps to increase small businesses' access to 504 loans by encouraging competition and streamlining processing. In 2003, this program's total financings accounted for almost $8 billion in projects.

The SBIC program also provides much needed capital to entrepreneurs. With an average investment size of about $600,000, SBICs currently provide over 58% of all venture capital

financings by actual number – that's 8% of all financing dollars – and 64% of all seed financing dollars.

SBA is moving forward with the design and implementation of the new Rural Business Investment Company program, in cooperation with the Department of Agriculture, which will expand access to venture capital for non-farm rural businesses. In FY 2003, SBICs reported investing $871 million -- 35% of all financing dollars – in 588 different small businesses located in non-metropolitan areas (the program does not have a "rural" definition). And of those investments, $420 million was invested in 404 small businesses in low-income non-metropolitan areas – supporting rural communities throughout the country. SBA expects these levels of investments to remain about the same this fiscal year. All together, that is real stimulus, going to rural markets and other struggling communities across America.

During the course of SBA's Microloan Program's 12 year history, the private sector lending community has recognized that micro-borrowers are creditworthy and that they represent substantial future growth opportunities. As a result, private sector lenders are far more willing to lend to very small and to start-up businesses and are able to offer more competitive interest rates than SBA's Microloan Intermediaries. SBA should not be competing with private sector lenders interested in developing this market, and has not requested funding for this program in FY 2005. The well-established 7(a) program provides an adequate incentive to lenders that feel that risk mitigation is required to make smaller loans. In FY 2003, the 7(a) program made over 23,000 loans under $35,000, while the Microloan program only made 2,442 loans in that same period.

The President's Management Agenda requires SBA to continue striving for the most effective and efficient means of serving our Nation's small businesses. In doing so, SBA believes it can provide the full range of technical assistance needed by America's small business entrepreneurs more efficiently through our core infrastructure of Women's Business Centers, Veteran's Business Outreach Centers, SCORE chapters, Small Business Development Centers, and our network of field offices. With over 1500 locations nationwide, SBA and these resource partners are in a position to deliver the technical assistance small businesses require. SBA will continue to make more of its resources available to hard-to-reach communities by moving materials online and stationing permanent SBA employees in rural communities. Examples of this include SBA's establishment of post-of-duty in rural Maine and two hard-to-reach towns in Alaska.

We believe we can help more small businesses by utilizing our core programs that have a nationwide infrastructure and can reach more customers more effectively. Some of SBA's technical assistance programs did not receive funding in FY 2003, yet SBA continued to provide small businesses with the assistance they needed. It is often said that access to information is the key to small business success.

SBA will continue the implementation of its transformation efforts. I have spoken with many of you personally about the importance of transformation to SBA's future success. These efforts are crucial to the Agency's continued relevance in its second half-century.

The Administrator has testified that SBA needed to change the way it delivers its services to its customers – America's small businesses. In recent years, SBA's program delivery has changed

so dramatically that SBA now works principally through its lending and other program partners to provide products and services to small businesses. SBA is now re-aligning its resources, including personnel, with this changed business practice using many of the private sector's best practices. Through transformation, SBA is shifting field office efforts from administrative functions to more direct relationships with customers and resource partners. SBA's field offices are using outreach, marketing, and customer and resource partner relationship management to ensure that they know and meet small business needs.

All of us at SBA are quite proud of the Agency's legacy of achievement. Many businesses with household names today received SBA assistance in their formative stages. Who knows which of tomorrow's industry leaders are today receiving their 7(a) loans, their government contracting opportunities, or their counseling through SBA's programs and services.

However, we at SBA cannot rest on our laurels. The Agency must continue to keep up with and ahead of changes in the marketplace.

We are committed to doing all we can to make sure those entrepreneurs receive all the assistance the Agency and its employees can provide. But SBA cannot do this alone. We will continue to work together with you, our Congressional partners, and all of our resource partners to ensure that SBA continues to assist small businesses into its next half-century.

Thank you again for the opportunity to testify here today. I would be happy to answer any questions you may have.

○